PUBLIC EMPLOYEES' RETIREMENT SYSTEM
TEACHERS' RETIREMENT SYSTEM

COMPREHENSIVE ANNUAL FINANCIAL REPORT
Each A Component Unit of the State of Alaska
For the Fiscal Year Ended June 30, 1995

Tony Knowles, Governor

Prepared by

Department of Administration
Division of Retirement and Benefits
P.O. Box 110203
Juneau, AK 99811-0203

Mark Boyer, Commissioner
Robert F. Stalnaker, Director

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Although this Comprehensive Annual Financial Report, for purposes of economy and efficiency, contains both the Public Employees' Retirement System and the Teachers' Retirement System, the two systems are separate entities for legal and financial reporting purposes.

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INTRODUCTORY SECTION

TONY KNOWLES, GOVERNOR

DEPARTMENT OF ADMINISTRATION

OFFICE OF THE COMMISSIONER

P.O. BOX 110200
JUNEAU, ALASKA 99811-0200
PHONE: (907) 465-2200
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December 18, 1995

The Honorable Tony Knowles, Governor
Members of the Alaska State Legislature
Public Employees' Retirement Board
Teachers' Retirement Board
Alaska State Pension Investment Board
Employers and Members of the Systems

It is my pleasure to submit the Comprehensive Annual Financial Report of the Alaska Public Employees' Retirement System (PERS) and Teachers' Retirement System (TRS), each A Component Unit of the State of Alaska.

This report shows the financial condition of both the PERS and TRS funds as of June 30, 1995. It has been prepared on the basis of standards set forth by the Governmental Accounting Standards Board and the American Institute of Certified Public Accountants and is submitted in accordance with the requirements of Alaska Statutes 39.35.020(5) (PERS) and 14.25.030(4) (TRS).

Sincerely,

Mark Boyer
Mark Boyer
Commissioner

MB/dkk
Enclosure

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TONY KNOWLES, GOVERNOR

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DEPARTMENT OF ADMINISTRATION

DIVISION OF RETIREMENT AND BENEFITS

December 18, 1995

Commissioner Mark Boyer
Department of Administration
P. O. Box 110200
Juneau, AK 99811-0200

Dear Commissioner Boyer:

It is my privilege to submit to you the Comprehensive Annual Financial Report (CAFR) of the Public Employees' Retirement System and the Teachers' Retirement System (Systems), each A Component Unit of the State of Alaska, for the fiscal year ended June 30, 1995. Alaska statutes require the publication of this report, showing the financial condition and operation of the Systems, within six months of the close of the fiscal year.

Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures, rests with the management of the Systems. To the best of my knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner that presents fairly the financial position and results of operations of the Systems. All disclosures necessary to enable the reader to gain an understanding of the Systems' activities have been included.

PLAN OVERVIEW

The Alaska State Legislature established the Teachers' Retirement System (TRS), a statewide defined benefit retirement system, on July 1, 1955, to encourage qualified teachers to enter and remain in public service. The Public Employees' Retirement System (PERS), also a statewide defined benefit retirement system, was created on January 1, 1961, to encourage qualified personnel to enter and remain in the service of the state or a political subdivision or public organization of the state. The Systems provide service, disability, and survivor retirement benefits, as well as health and life insurances.

	PERS			TRS		
	FY95	FY94	FY93	FY95	FY94	FY93
Number of Participating Employers	153	155	152	61	61	61
Number of Active Members	31,450	31,364	30,972	9,452	9,489	9,459
Number of Retired Members	10,173	9,643	9,103	4,459	4,134	3,891
Average Annual Retirement Benefit	$13,188	$12,864	$12,564	$24,864	$24,336	$23,712
Average Annual Medical Premium	$4,105	$ 3,848	$ 3,137	$ 4,105	$ 3,848	$ 3,137

REPORTING ENTITY

The Commissioner of the Department of Administration, appointed by the Governor, is responsible for administering the Systems. In order to meet the statutory requirements of administering the Systems, the Commissioner appoints the Director of the Division of Retirement and Benefits. The Director is responsible for the daily operations of the Systems.

The Public Employees' Retirement and the Teachers' Retirement Boards prescribe policies and regulations, hear appeals and approve employers' rates prepared by the Systems' independent consulting actuary.

The Alaska State Pension Investment Board (ASPIB) is the fiduciary of the funds. ASPIB has statutory oversight of the Systems' investments and the authority to invest the Systems' monies. Actual investing is performed by outside investment firms and investment officers of the Division of Treasury of the Department of Revenue. Treasury is responsible for carrying out investment policies established by the ASPIB .

Using the guidance provided by the Governmental Accounting Standards Board's Statement No. 14, The Financial Reporting Entity, both PERS and TRS are considered component units of the State of Alaska for financial reporting purposes. Because of the closeness of the Systems' relationship to the primary government, the State of Alaska, they are included in the State of Alaska Comprehensive Annual Financial Report as blended component units.

REPORT STRUCTURE

Although both the PERS and TRS are presented in this report and are administered by the same organization, they are separate entities for legal and financial reporting purposes. Therefore, the report is separated into two parts, one for PERS and the other for TRS, with a common Introductory section. Those two parts consist of the following sections, along with the Introductory section:

- The **Introductory** section contains this transmittal letter, awards from the Government Finance Officers Association and Public Pension Coordinating Council, and an overview of the administrative organization and consulting services utilized by the Systems.

- The **Financial** sections contain the independent auditors' reports, the financial statements of the Systems and the required supplementary financial information.

- The **Actuarial** sections contain the independent consulting actuary's certifications, along with the results of the latest actuarial valuations and other actuarial statistics.

- The **Investment** sections provide a review of investment activity and performance.

- The **Statistical** sections contain membership, both active and retired, and financial statistical data.

- A **Plan Summary** section is also included for each System's plan statement.

ECONOMIC CONDITION AND OUTLOOK

In fiscal year 1995, the U.S. economy had a Gross Domestic Product growth rate of 2.8%. The economy produced a 4.2% average growth rate during the first half of the year but only mustered a 1.9% growth rate in the second half.

Despite the volatility in economic activity, the underlying inflation pressure remained benign. The Consumer Price Index increased 3% during the fiscal year while the Producer Price Index rose at a moderate rate of 2.2%. Price pressure in the production pipeline that was evident early in the year dissipated. Other indicators also reflected a favorable inflation picture. Key commodity prices provided additional support for a friendly inflation outlook. The price of gold closed the year at $395 per ounce while crude oil finished at $17 per barrel. Both commodities experienced a mild price decline during the year.

The initial economic strength in fiscal year 1995 allowed the Federal Reserve Bank to maintain a tight monetary policy. Federal Reserve officials concluded economic growth would lead to higher inflation. The Federal Reserve Bank raised short term interest rates three times during the year with the last rate hike in February. The federal funds rate was increased by 1.75% and closed out the year at 6%. These rate actions hit the interest rate sensitive sectors of the economy hard. Final demands for the auto and housing sectors dropped off significantly in the second half of the year.

The year finished with the Federal Reserve Bank firmly reiterating its long term price stability objective. The Federal Reserve Bank appeared to have successfully engineered a slow down in the economy. More critically, the economy entered its sixth year of the expansion without triggering any inflation pressures.

MAJOR INITIATIVES AND ACCOMPLISHMENTS

The overall objective of the Systems is to provide a retirement program which, when combined with other benefits such as personal savings, Social Security, or the Supplemental Benefits System, for employees of the State and those political subdivisions that have opted out of Social Security, will help members maintain their current level of disposable income after retirement. As a part of our commitment to this objective, we continually strive to improve and enhance the quality of the services we provide to our membership.

As a part of our effort to improve the technology used to provide services, the consolidation of the majority of our computer software currently being used, some pieces of which were implemented in the early 1970's, into one comprehensive system is nearing completion. The Combined Retirement System (CRS) will provide financial and demographic information about active and retired members as well as employer members from a single source, rather than several nonintegrated subsystems. It is designed to improve the quality and timeliness of responses to member requests and also provide various methods of electronic transfer of data from our employer members. CRS will be implemented in stages during January through June of 1996.

A project to replace our microfiche and paper records with optical images has just begun. A Request for Proposals is currently being written, with the bid award scheduled to be completed by the end of 1995. Full implementation should be completed by December 1996. Documents will be accessed by staff through one of our two Local Area Networks (LANs). These two LANs, one in our Juneau office and the other in our Anchorage office, are currently connected by the State of Alaska's Wide Area Network backbone.

In an effort to improve communications with our membership, the Division of Retirement and Benefits has created a Home Page on the World Wide Web. Members can view information on such topics as; Frequently Asked Questions, Information Handbooks, Statutes and Regulations, and Newsletters. Shortly after publication of this CAFR, it too will be available on the Web. Members can also ask questions or request data by sending an E-Mail message to the appropriate staff member.

We have recently implemented a new health service for retirees called Informed Health. This service provides: (1) experienced, registered nurses retirees can call 24 hours a day, toll-free for health information of all kinds; (2) a practical, easy-to-read handbook that includes basic guidelines on how to recognize and cope with common health problems; and (3) a quarterly newsletter with timely health information.

In FY 95, the Systems' actuary performed a study of all economic actuarial assumptions. Based on this study, the total inflation assumption was changed from 5% to 4% annually. This in turn affected the investment return, salary scale, and health cost assumptions. A change occurred in the asset valuation method as well. The new method smooths the difference between expected investment return and actual return by spreading the recognized gain or loss over a five year period.

FINANCIAL INFORMATION

Accounting System and Internal Controls

This report has been prepared in conformity with generally accepted accounting principles as pronounced by the Governmental Accounting Standards Board and the American Institute of Certified Public Accountants. The financial statements were prepared in accordance with Financial Accounting Standards Board Statement No. 35, Accounting and Reporting by Defined Benefit Pension Plans. The notes to the financial statements were prepared in accordance with Governmental Accounting Standards Board Statement No. 5, Disclosure of Pension Information by Public Employee Retirement Systems and State and Local Governmental Employers.

The accrual basis of accounting is used to record the assets, liabilities, revenues and expenses of the Systems. Revenues are recognized in the period in which services are performed and expenses are recorded when the corresponding liabilities are incurred, regardless of when payment is made. Investments, other than real estate equities and loans and mortgages, are carried at market value. Real estate equities and loans and mortgages are stated at estimated market value as determined by independent management and Division of Treasury management, respectively. Security transactions and any resulting gains or losses are accounted for on a trade date basis.

The management of the Systems is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the Systems are protected from loss, theft, or misuse and to ensure that adequate accounting data is compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles.

The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

In addition, there is an Internal Auditor, established under statutory requirements, who reports directly to the Director and provides written and oral reports on a regular basis. The auditor travels throughout the state auditing various employer members to ensure that all laws and regulations pertaining to membership data and contributions are accurately implemented when reporting to the Systems.

Fund Balances

The market value of net assets available for benefits for FY 95 and FY 94 for both Systems is shown for comparative purposes.

	Millions		Increase	
	1995	1994	Amount	Percent
Public Employees' Retirement System	$4,876.8	4,177.0	699.8	16.8%
Teachers' Retirement System	2,688.5	2,351.7	336.8	14.3

Revenues

The revenues needed to finance retirement and other member benefits are accumulated through the collection of employer and employee contributions and through earnings on investments. These income sources for the years ended June 30, 1995, and 1994 are shown as follows:

	PERS				TRS			
	Millions		Inc/(Dec)		Millions		Inc/(Dec)	
	1995	1994	Amt	%	1995	1994	Amt	%
Employee Contributions	$ 83.7	82.5	1.2	1.5%	$ 47.5	47.9	(0.4)	(0.8)%
Employer Contributions	156.4	153.3	3.1	2.0	60.0	60.5	(0.5)	(0.8)
Investment and Other Income	656.0	112.1	543.9	485.2	369.2	63.2	306.0	484.2
Total Revenues	**$896.1**	**347.9**	**548.2**	**157.6%**	**$476.7**	**171.6**	**305.1**	**177.8%**

Expenses

The primary expense of a retirement system is the payment of benefits. These recurring benefit payments, along with refunds of contributions to terminated employees and the cost of administering the Systems comprise the total expenses. The expenses for the years ended June 30, 1995 and 1994 are reflected below:

	PERS				TRS			
	Millions		Inc/(Dec)		Millions		Inc/(Dec)	
	1995	1994	Amt	%	1995	1994	Amt	%
Benefits	$172.3	157.9	14.4	9.1%	$129.8	116.5	13.3	11.4%
Refunds	12.8	9.6	3.2	33.3	2.8	2.2	0.6	27.3
Administration	11.3	11.3	0.0	0.0	7.4	7.7	(0.3)	(3.9)
Total Expenses	**$196.4**	**178.8**	**17.6**	**9.8%**	**$140.0**	**126.4**	**13.6**	**10.8%**

FUNDING

The overall objective in the funding of any retirement system is to accumulate sufficient funds to pay current and future benefit payments. The higher the level of funding, the larger the accumulation of assets and the greater the investment income potential. Also, a high level of funding gives the members a greater degree of assurance that pension benefits are secure.

A common measure of the strength of a pension system is to express the assets as a percentage of total liabilities, known as the funding ratio. Actuarial valuations to determine the current funding ratios and calculate future funding requirements for both Systems are performed every year. The latest valuations were conducted as of June 30, 1994. The funding ratios, as of that date, were 94.8% for PERS and 89.6% for TRS, based on the valuation assets used in the actuarial valuation. Valuation assets are calculated by smoothing the difference between the expected investment return and the actual investment return for a given year over five years. This is a decrease of .6% and 3.5%, respectively, primarily due to changes in economic actuarial assumptions and the asset valuation method. These funding ratios are considered to be very good, especially in light of the fact that medical premiums are prefunded and, as such, are included in the accrued liabilities, which is not common for a state retirement system.

Although the historical level of funding for the Systems is very good, constant effort will continue to be directed at improving funding levels, thereby assuring the members of financially sound retirement systems.

INVESTMENTS

The Alaska State Pension Investment Board's perspective of structuring the PERS and TRS to meet long-term investment objectives remained focused, while many investors reacted defensively in response to the Federal Reserve Bank raising short-term interest rates.

A thorough review process and a disciplined investment approach earned 15.56% for the PERS fund and 15.90% for the TRS fund in the fiscal year. On an annualized basis, the PERS fund earned 10.69% while the TRS fund earned 10.82% for the last three years, and 10.16% and 10.12%, respectively, for the last five years. These investment returns are in excess of the actuarial investment return rate needed to meet future liabilities.

Fixed Income

The conservative investment approach protected each Fund's assets during a volatile year in the fixed income markets. The PERS Fund's $2.3 billion and the TRS Fund's $1.2 billion of fixed income investments produced a return of 12.71% and 13.0%, respectively, compared to a return of 12.76% for the investment index. During the fiscal year, the portfolios shifted from a structure designed to reduce the impact of rising interest rates to one designed to take advantage of market rallies. At the end of the fiscal year, both portfolios had a higher yield than the investment index, with PERS at 6.41% and TRS at 6.42% compared to 6.35% for the index.

The annualized rate of return for three and five years exceeded the benchmark index. These results were produced by a strategy based on three key principles. First, investing is a long-term undertaking, and long-term trends, objectives, and risk/returns analysis should guide the process. Second, investment efforts should be focused where the long-term risk/return relationship is most advantageous, such as intermediate corporate bonds. Diversification and risk control together make up the final key to the Funds' fixed income investment portfolios. In addition to investing in only investment grade bonds, the Funds will not purchase more than 10% of any individual issue and no individual issuer's debt will comprise more than 5% of the total portfolio for each fund.

Several other items contributed to the strong returns of the portfolio. The moderate growth of the economy helped reduce the required credit premium on corporate bonds. Coupled with the continued issuance of new corporate bonds at a moderately slow pace, the result was a better performance for corporate bonds than United States Treasury securities with similar maturities.

Equities

The well-diversified investments of the Funds' domestic equity and international equity portfolios are designed to limit risk from a specific company or economic region. This is achieved by hiring multiple equity managers who have a record of accomplishments with specific types of portfolios and mandates.

The PERS Fund's $2.0 billion and the TRS Fund's $1.15 billion domestic equity portfolio returned 22.82% for the fiscal year, which compares favorably to the median active management returns of 22.68%, while the Standard & Poor's (S & P) 500 Index returned 26.08%. The annualized results for three years is 13.78%

versus index returns of 13.18%. The five year annualized returns were 11.74% and 11.72% for PERS and TRS, respectively, versus 12.05% for the S & P 500 Index. International equities earned 3.40% for the year ended June 30, 1995 on the PERS Fund's $382 million and the TRS Fund's $222 million. These returns exceeded the benchmark Morgan Stanley Capital International, Europe, Australia, and Far East (EAFE) Index by 1.74%. The annualized rate of return for three years is 12.11% versus 12.68% for the benchmark index, and 6.92% and 6.79% for PERS and TRS, respectively, versus 4.69% for five years.

Real Estate

The returns from $104 million of real estate equities held by the PERS and $62 million held by the TRS increased from 7.01% and 6.50% in fiscal year 1994 to 7.89% and 7.78% in fiscal year 1995, compared to 4.07% in 1994 to 7.83% in fiscal year 1995 for the NCREIF Index, a national barometer of commingled fund performance. The return for the current year is also a significant improvement over the portfolios' three-year returns of 4.65% for the PERS and 4.27% for the TRS, and the five-year negative returns of 2.38% for the PERS and 2.49% for the TRS.

While the real estate market enjoyed continued improvement, different property types and geographic locations experienced varying degrees of success. The perceived risk of owning real estate continues to decline. Improved market fundamentals and significant capital flows from private, public, and institutional equity investors provided the impetus for improvement in the real estate markets.

OTHER INFORMATION

Independent Audit

Annual audits of the Systems were completed by the independent accounting firm of KPMG Peat Marwick, LLP. The audits were conducted in accordance with generally accepted auditing standards. The auditors' opinions were unqualified for both Systems for the year ended June 30, 1995.

Awards

For the second consecutive year, the Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the PERS and TRS for their comprehensive annual financial report for the year ended June 30, 1994. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, the Systems must publish an easily readable and efficiently organized comprehensive annual financial report. This report satisfied both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

The Systems were also each awarded the Public Pension Coordinating Council's Public Pension Principles Achievement Award for 1994. These awards were presented in recognition of instituting professional standards for public employee retirement systems in the areas of benefits, actuarial valuation, financial reporting and auditing, investments, and disclosure.

Acknowledgments

The preparation of this report is made possible by dedicated service of the staff of the Systems. It is intended to provide comprehensive and reliable information as a basis for making management decisions, as a means of determining compliance with legal provisions, and as a means for determining responsible stewardship for the assets contributed by the members and their employers.

This report is being mailed to the Governor, each State Legislator, each employer member and any other interested parties. Hopefully, the employers and their employees will find this report both informative and helpful.

I would like to take this opportunity to once again thank the Boards, the staff, and the many other people who have been instrumental in assuring the successful operation and the financial soundness of the Systems. I would also like to thank the employers of the Systems whose time and efforts play a major role in the success of the Systems.

Respectfully submitted,

Robert F. Stalnaker
Director

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Enclosure

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Alaska Public Employees' Retirement System/Teachers' Retirement System

For its Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 1994

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

GOVERNMENT FINANCE OFFICERS ASSOCIATION OF THE UNITED STATES AND CANADA CORPORATION SEAL CHICAGO

President

Executive Director

Public Pension Coordinating Council

Public Pension Principles

1994 Achievement Award

Presented to

State of Alaska,
Public Employees' Retirement System

In recognition of instituting professional standards for public employee retirement systems as established by the Public Pension Principles

Presented by the Public Pension Coordinating Council, a confederation of
Government Finance Officers Association (GFOA)
National Association of State Retirement Administrators (NASRA)
National Conference on Public Employee Retirement Systems (NCPERS)
National Council on Teacher Retirement (NCTR)

Purvis W. Collins
Purvis W. Collins
Chairman

Public Pension Coordinating Council

Public Pension Principles

1994 Achievement Award

Presented to

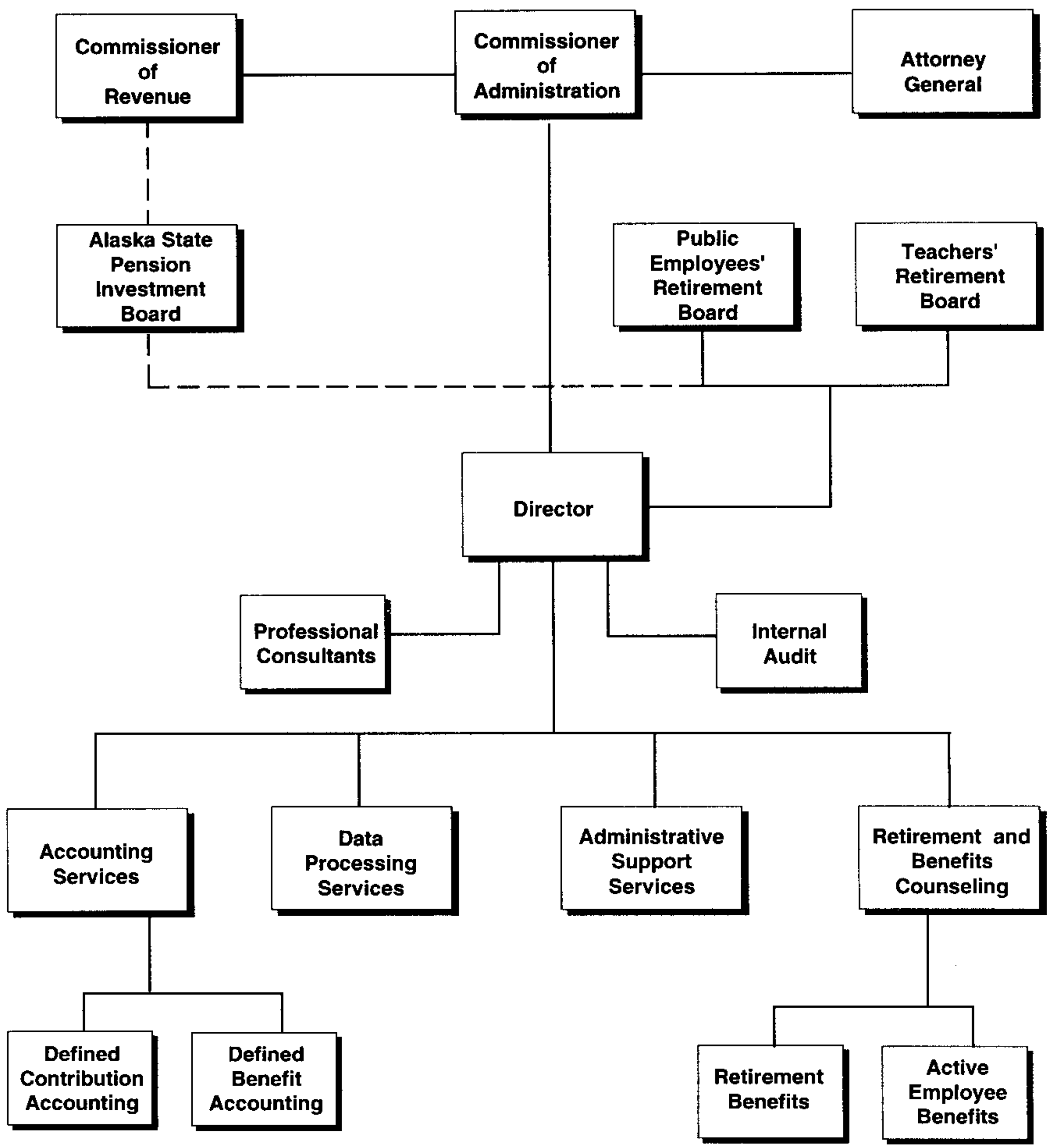
State of Alaska,
Teachers' Retirement System

In recognition of instituting professional standards for public employee retirement systems as established by the Public Pension Principles.

Presented by the Public Pension Coordinating Council, a confederation of
Government Finance Officers Association (GFOA)
National Association of State Retirement Administrators (NASRA)
National Conference on Public Employee Retirement Systems (NCPERS)
National Council on Teacher Retirement (NCTR)

Purvis W. Collins
Purvis W. Collins
Chairman

ORGANIZATIONAL CHART



ADMINISTRATIVE STAFF

Director
Robert F. Stalnaker

Accounting Services Manager
Anselm Staack

Defined Benefit Accounting Supervisor
Jerome J. Walkush

Defined Contribution Accounting Supervisor
David Duntley

Data Processing Services Manager
William "Chuck" Greeson

Retirement and Benefits Counseling Manager
Janet Parker

Retirement Benefits Supervisor
Willard "Bill" Church

Active Employee Benefits Supervisor
Lisa Tourtellot

Administrative Support Services Manager
David Thomson

Internal Auditor
Katherine "Kay" Gouyton

PROFESSIONAL CONSULTANTS

Actuary Consultant
William M. Mercer, Incorporated
Seattle, Washington

Independent Auditors
KPMG Peat Marwick, LLP
Anchorage, Alaska

Benefits Consultant
Watson Wyatt Company
Seattle, Washington

Health Insurance Carrier
Aetna Life Insurance Company
Seattle, Washington

Legal Counsel
John Gaguine
Assistant Attorney General
Juneau, Alaska

Legal Counsel - Retirement Boards
Robert Johnson
Attorney
Anchorage, Alaska

Consulting Physician
Mike Franklin, M.D.
Juneau, Alaska

ALASKA PUBLIC EMPLOYEES' RETIREMENT SYSTEM

PUBLIC EMPLOYEES' RETIREMENT BOARD

Judge Seaborn J. Buckalew, Vice Chair
Term Expires: 6/20/96

Mary A. Notar
Term Expires: 4/5/96

James "Pat" Wellington, Chair
Term Expires: 4/5/96

Gary P. Bader
Term Expires: 6/20/98

Peter Hallgren
Term Expires: 6/20/00

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FINANCIAL SECTION

KPMG Peat Marwick LLP

601 West Fifth Avenue
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Anchorage, AK 99501-2258

Independent Auditors' Report

Division of Retirement and Benefits and
Members of the Alaska Public Employees' Retirement Board
State of Alaska Public Employees' Retirement System:

We have audited the accompanying statements of net assets available for plan benefits of the State of Alaska Public Employees' Retirement System (Plan), A Component Unit of the State of Alaska, as of June 30, 1995 and 1994, and the related statements of changes in net assets available for plan benefits for the years then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for plan benefits of the State of Alaska Public Employees' Retirement System, A Component Unit of the State of Alaska, as of June 30, 1995 and 1994, and the changes in net assets available for plan benefits for the years then ended in conformity with generally accepted accounting principles.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

September 13, 1995

KPMG Peat Marwick LLP

Member Firm of
Klynveld Peat Marwick Goerdeler

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Statements of Net Assets Available for Plan Benefits
(000s omitted)

June 30, 1995 and 1994

	1995	1994
Assets:		
Investments, at market value:		
United States Government debt	$ 1,047,075	943,018
Federal agency debt	115,797	57,493
Corporate bonds, notes and debentures	1,123,412	852,167
Commercial paper	42,558	164,342
Domestic equity pool	1,985,645	1,593,533
International equity pool	347,704	360,726
Emerging markets equity pool	35,566	36,247
Real estate equities	100,267	116,089
Total investments	4,798,024	4,123,615
Loans and mortgages, at market value, net of allowance for loan losses of $1,540 in 1995 and $2,152 in 1994	3,903	5,664
Receivables:		
Contributions	13,102	13,492
Retirement incentive program	-	90
Accrued interest and dividends	46,354	39,202
Other accounts receivable	2	20
Total receivables	59,458	52,804
Deposits in State of Alaska short-term investment pools	30,397	1,610
Total assets	4,891,782	4,183,693
Liabilities:		
Accrued expenses	7,179	6,533
Due to State of Alaska General Fund	7,713	63
Commerce settlement liability	82	84
Total liabilities	14,974	6,680
Net assets available for plan benefits	**$ 4,876,808**	**4,177,013**

See accompanying notes to financial statements.

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Statements of Changes in Net Assets Available for Plan Benefits
(000s omitted)

Years ended June 30, 1995 and 1994

	1995	1994
Additions:		
Investment income:		
Net unrealized appreciation (depreciation) in market value of investments:		
Investments measured by quoted market values in an active market	$ 295,454	(207,393)
Investments measured by net realizable value as determined by management or other methods	4,251	158
Net unrealized appreciation (depreciation) in market value of investments	299,705	(207,235)
Interest	163,337	148,643
Dividends	67,741	58,953
Net realized gains on sales	125,355	111,508
Total investment income before recoveries on loans and mortgages	656,138	111,869
Net mortgage loan recoveries (loss)	(122)	192
Net investment income	656,016	112,061
Contributions:		
Employers	156,445	153,302
Employees	83,683	82,503
Retirement incentive program - employers	-	(17)
Total contributions	240,128	235,788
Other	3	32
Total additions	896,147	347,881
Deductions:		
Benefits paid:		
Retirement	131,634	121,867
Medical	40,687	36,046
Total benefits paid	172,321	157,913
Refunds to terminated employees	12,774	9,584
Administrative expenses	11,257	11,278
Total deductions	196,352	178,775
Net increase	699,795	169,106
Net assets available for plan benefits at beginning of year	4,177,013	4,007,907
Net assets available for plan benefits at end of year	**$ 4,876,808**	**4,177,013**

See accompanying notes to financial statements.

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Notes to Financial Statements
(000s omitted)

June 30, 1995 and 1994

(1) Description

The following brief description of the State of Alaska Public Employees' Retirement System (Plan), A Component Unit of the State of Alaska, is provided for general information purposes only. Participants should refer to the Plan agreement for more complete information.

General

The Plan is the administrator of a defined benefit, agent, multiple-employer public employee retirement system established and administered by the State of Alaska (State) to provide pension benefits for eligible State employees and employees of its local governments. Benefit and contribution provisions are established by State law and may be amended only by the State Legislature. The Plan is considered a component unit of the State financial reporting entity and is included in the State's financial reports as a pension trust fund.

At June 30, 1995, the number of participating local government employers and public organizations including the State of Alaska was:

State of Alaska	1
Municipalities	73
School districts	52
Other	27
Total employers	**153**

Inclusion in the Plan is a condition of employment for eligible State employees except, as otherwise provided, for judges, elected officers and certain employees of the Alaska Marine Highway System. Any local government in the State may elect to have its permanent general and police and fire department employees covered by the Plan. At June 30, 1994, Plan membership consisted of:

Retirees and beneficiaries currently receiving benefits and terminated employees entitled to future benefits	13,414
Current employees:	
General	28,883
Police and fire	2,481
	31,364
	44,778
Current employees:	
Vested:	
General	16,162
Police and fire	1,981
Nonvested:	
General	12,721
Police and fire	500
	31,364

(Continued)

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Notes to Financial Statements
(000s omitted)

Pension Benefits

Employees hired prior to July 1, 1986 with five or more paid-up years of credited service are entitled to monthly pension benefits beginning at normal retirement age, fifty-five, or early retirement age, fifty. For employees first hired after June 30, 1986, the normal and early retirement ages are sixty and fifty-five, respectively. Employees with thirty or more years of credited service (twenty years for peace officers and firemen) may retire at any age and receive a normal benefit.

The normal monthly pension benefit is based on years of service and average monthly compensation. The average monthly compensation is based upon the employee's three highest, consecutive years salaries.

The benefit related to all years of service earned prior to July 1, 1986 and for years of service through a total of ten years for general employees is equal to 2% of the employee's average monthly compensation for each year of service. The benefit for each year over ten years of service subsequent to June 30, 1986 is equal to 2-1/4% of the employee's average monthly compensation for the second ten years and 2-1/2% for all remaining years of service. For police and fire employees, the benefit for years of service through a total of ten years is equal to 2% of the employee's average monthly compensation and 2-1/2% for all remaining years of service.

Minimum benefits for employees eligible for retirement are $25 per month for each year of credited service.

Married employees must receive their benefits in the form of a joint and survivor annuity unless their spouses consent to another form of benefit or another person is eligible for benefits under a qualified domestic relations order.

When pension benefits begin, major medical benefits are provided without cost to (1) all employees first hired before July 1, 1986 and (2) employees who are disabled or age sixty-five or older, regardless of their initial hire dates. Employees first hired after June 30, 1986 may receive major medical benefits prior to age sixty-five by paying premiums.

Death Benefits

If an active employee dies from occupational causes, the spouse may receive a monthly pension equal to 40% of the employee's salary. When death is due to occupational causes and there is no surviving spouse, the employee's dependent child(ren) may receive the monthly pension until they are no longer dependents. The amount of the occupational death pension changes on the date the employee's normal retirement would have occurred if the employee had lived. The new benefit is based on the employee's average monthly compensation at the time of death and the credited service, including service that would have accrued if the employee had lived and continued to work until normal retirement. If the death was from nonoccupational causes, and the employee was vested, the spouse may receive a monthly survivor benefit based on a 50% joint and survivor option. If the employee is not married or vested, a lump sum death benefit is payable to the named beneficiary(s).

(Continued)

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Notes to Financial Statements
(000s omitted)

Disability Benefits

Active employees who become permanently disabled due to occupational or nonoccupational causes receive disability benefits until normal retirement age. Although there is no minimum service requirements for employees to be eligible for occupational disability, employees must be vested to receive nonoccupational disability benefits. The monthly occupational disability benefit is equal to 40% of the employee's salary at the time of the disability. The nonoccupational disability benefit is based on the employee's service and salary at the time of disability. At normal retirement age the disabled employees begin receiving normal retirement benefits.

Effect of Plan Termination

Should the Plan terminate at some future time, its net assets generally will not be available on a pro rata basis to provide participant benefits. Whether a particular participant's accumulated Plan benefits will be paid depends on the priority of those benefits at that time. Some benefits may be fully or partially provided for by the then existing assets while other benefits may not be provided for at all.

(2) Summary of Significant Accounting Policies

Basis of Accounting

The Plan's financial statements are prepared using the accrual basis of accounting.

Valuation of Investments

Security transactions and any resulting gains or losses are accounted for on a trade date (ownership) basis.

Investments, other than real estate equities and loans and mortgages, are carried at market value to reflect their asset values. Market value is determined at the end of each month by the custodial agent. The agent's determination of market values involves, among other things, using pricing services or prices quoted by independent brokers.

Real estate equities are stated at estimated market value as determined by the independent management of the investment accounts. These investments do not have a readily available market and generally represent long-term investments.

At June 30, 1995, loans and mortgages are stated at estimated market value as determined by management.

Historically, management of the loans and mortgages portfolio has provided an estimated allowance for loan losses to provide for potential credit losses. Factors considered by management in developing the allowance for loan losses include delinquency levels, historical charge-offs and the aging of the portfolio.

Loans and mortgages include $2,248 and $2,286 for 1995 and 1994, respectively, of other real estate owned. Other real estate owned represents properties on which the Plan has foreclosed and is holding with the intent to resell.

Contributions Receivable

Contributions from employees and employers for service through June 30 are accrued. These contributions are considered fully collectible and, accordingly, no allowance for uncollectible receivables is reflected in the financial statements.

(Continued)

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Notes to Financial Statements
(000s omitted)

Reclassifications

Certain amounts have been reclassified to conform with the current year presentation.

(3) Investments and Deposits

To provide an indication of the level of credit risk assumed by the Plan at June 30, 1995, the Plan's investments are categorized as follows:

Investments

Category 1 - Insured or registered for which the securities are held by the State or its custodian in the Plan's name.

Category 2 - Uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the Plan's name.

Category 3 - Uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent but not in the Plan's name:

	Category 1	Category 2	Category 3	Market value and carrying value
Investments categorized:				
United States Government debt	$ 1,047,075	-	-	1,047,075
Federal agency debt	115,797	-	-	115,797
Corporate bonds, notes and debentures	1,123,412	-	-	1,123,412
Commercial paper	42,558	-	-	42,558
Total investments categorized	2,328,842	-	-	2,328,842
Investments which cannot be categorized as they are an undivided interest in a State of Alaska investment pool:				
Domestic equity pool				1,985,645
International equity pool				347,704
Emerging markets equity pool				35,566
				2,368,915
Other investments which cannot be categorized - real estate equities				100,267
Total investments not categorized				2,469,182
Total investments				**$ 4,798,024**

(Continued)

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Notes to Financial Statements
(000s omitted)

Although pooled investments represent the Plan's share of ownership in the pool, rather than ownership of specific securities, all of the underlying securities in the pool in which the Plan participates are considered to be Category 1 and are held by the custodian in the State's name.

Deposits

Deposits in the State of Alaska short-term investment pools, $30,397 at June 30, 1995, cannot be categorized as the Plan has an undivided interest in these pools. The assets of the short-term investment pools consist of cash and repurchase agreements. All assets of the short-term investment pools are insured or collateralized with securities held by the State or its custodian in the State's name.

During 1995 and 1994, the Plan's investments (including investments bought, sold, as well as held during the year) appreciated (depreciated) in value as follows:

	1995	1994
Investments measured by quoted market values in an active market:		
United States Government debt	$ 48,081	(95,316)
Federal agency debt	2,494	(4,051)
Corporate bonds	48,441	(81,814)
Commercial paper	14	14
Domestic equity pool	203,146	(56,863)
International equity pool	(5,279)	29,812
Emerging market equity pool	(1,443)	825
Investments measured by net realizable value as determined by management or other method:		
Real estate equities	4,251	158
Loans and mortgages	(122)	192
	$ 299,583	**(207,043)**

(Continued)

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Notes to Financial Statements
(000s omitted)

The cost, market and carrying values of the Plan's investments at June 30, 1995 and 1994 are as follows:

	Cost	Market	Carrying value
1995:			
United States Government debt	$ 940,544	1,047,075	1,047,075
Federal agency debt	112,421	115,797	115,797
Corporate bonds, notes and debentures	1,065,267	1,123,412	1,123,412
Commercial paper	42,558	42,558	42,558
Domestic equity pool	1,682,607	1,985,645	1,985,645
International equity pool	318,235	347,704	347,704
Emerging markets equity pool	36,062	35,566	35,566
Real estate equities	137,585	100,267	100,267
Loans and mortgages, net of allowance for loan losses of $1,540	3,903	3,903	3,903
	$ 4,339,182	**4,801,927**	**4,801,927**
1994:			
United States Government debt	$ 884,568	943,018	943,018
Federal agency debt	56,611	57,493	57,493
Corporate bonds, notes and debentures	842,462	852,167	852,167
Commercial paper	164,356	164,342	164,342
Domestic equity pool	1,493,641	1,593,533	1,593,533
International equity pool	325,978	360,726	360,726
Emerging markets equity pool	35,422	36,247	36,247
Real estate equities	157,657	116,089	116,089
Loans and mortgages, net of allowance for loan losses of $2,152	5,664	5,664	5,664
	$ 3,966,359	**4,129,279**	**4,129,279**

(Continued)

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Notes to Financial Statements
(000s omitted)

The Alaska State Pension Investment Board has statutory oversight of the Plan's investments and the authority to invest the Plan's monies. Prior to July 1, 1993, the Commissioner of Revenue had the statutory authority to invest the monies of the Plan. Actual investing is performed by the investment officers of the Division of Treasury of the Department of Revenue. Alaska Statute provides for the investment in United States treasury or agency securities; corporate debt securities; preferred and common stock; commercial paper; securities of foreign governments, agencies and corporations; foreign time deposits; gold bullion; futures contracts for the purpose of hedging; real estate investment trusts; deposits within Alaska savings and loans and mutual savings banks; deposits with state and national banks in Alaska; guaranteed loans; notes collateralized by mortgages; certificates of deposit and banker's acceptances.

(4) Pooled Investments

Short-Term Investment Pools

The Plan, along with other State funds, participates in two internally managed short-term fixed income pools. Participants in the qualified short-term fixed income pool are qualified retirement plans whereas participants in the nonqualified fixed income pool are retirement funds as well as other State funds. Each participant owns shares in the pools, the number of which fluctuates daily with contributions, withdrawals and income. A share price of $1 is maintained, giving each participant one share for every dollar invested in the short-term fixed income pools. The assets of the short-term fixed income pools, comprised of commercial paper, corporate bonds, U.S. Treasuries, U.S. Government sponsored securities, repurchase agreements and cash, are reported as deposits in State of Alaska short-term investment pools on the statements of net assets and are presented at market. At June 30, 1995 and 1994, the Fund's investment in the short-term fixed income pools is comprised of the following:

	1995		1994	
	Ownership percentage	Market value of shares	Ownership percentage	Market value of shares
Nonqualified	.43%	$ 3,409	-%	-
Qualified	73.46%	26,988	52.41%	1,610
Total short-term fixed income pools		$ 30,397		1,610

(Continued)

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Notes to Financial Statements
(000s omitted)

Domestic Equity Pool

The investment activity of all domestic marketable securities was consolidated with the domestic marketable securities of three other State retirement funds to form a domestic equity pool. The activity and the June 30, 1995 and 1994 balances of this domestic equity pool are accounted for on a unit-accounting basis. All income and realized and unrealized gains and losses are allocated monthly to each participant on a pro rata ownership basis. At June 30, 1995 and 1994, the Plan's investment in the domestic equity pool is comprised of the following:

	1995	1994
Marketable securities, at market	$ 1,769,420	1,509,607
Interest and dividends receivable	5,181	5,571
Cash and cash equivalents	211,044	78,355
	$ 1,985,645	1,593,533

International Equity Pool

The Plan, along with three other State retirement systems, has formed an international equity pool comprised of investments in various types of international equity securities. The majority of the international equity pool is comprised of common stock with available cash balances invested in short-term debt instruments. All accrued income, realized gains and losses, and income received are allocated monthly to the four participating funds on a pro rata ownership basis.

The international equity pool at June 30, 1995 and 1994 is comprised of the following:

	1995	1994
Marketable securities, at market	$ 333,851	344,400
Interest and dividends receivable	-	1,146
Cash and cash equivalents	13,853	15,180
	$ 347,704	360,726

Emerging Markets Equity Pool

The Plan, along with another State retirement system, has formed an emerging markets equity pool, with each retirement system owning shares of the pool. The pool participates in two externally managed commingled investment funds. The commingled funds, comprised of various institutional investors, invest in the equity markets of developing countries. All accrued income, realized gains and losses and income received are allocated monthly to the four participating funds on a pro rata ownership basis. At June 30, 1995 and 1994, the Plan's ownership in the pool was $35,566 and $36,247, respectively.

(5) Funding Status and Progress

The amount shown below as "pension benefit obligation," which is the actuarial present value of credited projected benefits, is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases, estimated to be payable

(Continued)

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Notes to Financial Statements
(000s omitted)

in the future as a result of employee service to date. This measure is intended to help users assess the Plan's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among plans. The measure is independent of the actuarial funding method used to determine contributions to the Plan, discussed in note 7 below.

The pension benefit obligation is determined by William M. Mercer, Incorporated and is the amount that results from applying actuarial assumptions to adjust the accumulated benefits to reflect the time value of money (through discounts for interest) and the probability of payment (by means of decrements such as for death, disability, withdrawal, or retirement) between the valuation date and the expected date of payment. The significant actuarial assumptions used in the valuations as of June 30, 1994 are as follows:

a. Actuarial cost method - projected unit credit, unfunded accrued benefit liability amortized over a rolling twenty-five years, funding surplus amortized over five years.

b. Mortality basis - 1984 Unisex Pension Mortality Table set forward one year for male and police/fire members, and set backward four years for females.

c. Retirement age - retirement rates based on the 1986-1990 actual experience.

d. Cost of living allowance (domicile in Alaska) - 71% of those receiving benefits will be eligible to receive the cost of living allowance.

e. Contribution refunds - 100% of those employees terminating after age thirty-five with five or more years of service will leave their contributions in the fund and thereby retain their deferred vested benefit. All others who terminate are assumed to have their contributions refunded.

f. Turnover and disability assumptions are based upon the 1986-1990 actual experience of the Plan.

The foregoing actuarial assumptions are based on the presumption that the Plan will continue. Were the Plan to terminate, different actuarial assumptions and other factors might be applicable in determining the actuarial present value of accumulated benefits.

Changes in Actuarial Assumptions

There were no significant changes in the demographic actuarial assumptions or actuarial methods used in the determination of Plan liabilities this year. However, there was a change in the economic actuarial assumptions and asset valuation method. The assumptions and methods, when applied in combination, fairly represent past and anticipated future experience of the Plan.

The total inflation assumption was changed from 5% to 4% annually. This in turn affected the economic assumptions, including investment return, salary scale and health cost trend. The following table shows the prior and new economic assumptions:

(Continued)

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Notes to Financial Statements
(000s omitted)

	Prior assumption	New assumption June 30, 1994
Inflation	5.00%	4.00%
Investment return	8.75%	8.00%
Salary scale:		
Inflation	5.00%	4.00%
Productivity	.50%	.50%
Merit (first five years)	1.00%	1.00%
Health cost trend:		
FY95	9.50%	9.50%
FY96	8.50%	8.50%
FY97	7.50%	7.50%
FY98	7.50%	6.50%
FY99 and later	7.50%	5.50%

The method of calculating valuation assets was changed. The new asset valuation method smooths the difference between expected investment return and actual return during a given year. The method spreads the results over five years by recognizing 20% of the investment gain or loss in each of the current and preceding four years.

The effect of the changes in assumptions and asset valuation method was to increase the actuarial present value of accumulated Plan benefits by $7,196 and the unfunded pension obligation by $85,827.

At June 30, 1994, the unfunded pension benefit obligation was $443,169, as follows:

Net assets available for benefits as of June 30, 1994, at market	$ 4,177,013
Pension benefit obligation:	
Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits	2,233,349
Current employees:	
Accumulated employee contributions including allocated investment income	615,925
Employer-financed, vested	1,657,169
Employer-financed, nonvested	113,739
Total pension benefit obligation as of June 30, 1994	4,620,182
Unfunded pension benefit obligation as of June 30, 1994	$ 443,169

(6) Actuarial Present Value of Accumulated Plan Benefits

The actuarial present value of accumulated Plan benefits was determined by William M. Mercer, Incorporated using the unit credit cost method and the following assumptions:

a. Future salary was not considered.

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STATE OF ALASKA
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Notes to Financial Statements
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b. Future service was considered only to the extent that it would permit active Plan participants to become eligible for benefits attributable to service rendered prior to the date of determination.

c. Assumptions used for mortality, withdrawal, retirement ages, disability and investment return are described in note 5 to these financial statements.

At June 30, 1994, the actuarial present value of accumulated Plan benefits was $4,024,688 as follows:

Retired participants and beneficiaries of deceased participants	$ 1,725,331
Terminated participants with deferred benefits	508,018
Active participants - vested	1,717,282
Active participants - nonvested	74,057
Actuarial present value of accumulated Plan benefits as of June 30, 1994	**$ 4,024,688**

The change in the actuarial present value of accumulated Plan benefits at June 30, 1994 follows:

Actuarial present value of accumulated Plan benefits as of June 30, 1993	$ 3,648,551
Increase (decrease) attributable to:	
Additional benefits accumulated, including actuarial experience	214,516
Change due to decrease in the discount period	321,922
Estimated benefits paid to participants	(167,497)
Changes in assumptions	7,196
Actuarial present value of accumulated Plan benefits as of June 30, 1994	**$ 4,024,688**

(7) Contributions

Employee Contributions

Prior to January 1, 1987, employees contributed 4.25% of their compensation, except for peace officers and firemen, who contributed 5% of their compensation to the Plan. Effective January 1, 1987, contribution rates increased to 7.5% for peace officers and firemen and 6.75% for other employees, as required by statute. The employee contributions are deducted before federal income tax is withheld. Contributions are collected by employers and remitted to the Plan and may be voluntarily or, under certain circum-

(Continued)

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
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Notes to Financial Statements
(000s omitted)

stances, involuntarily refunded to the employee or a garnishing agency sixty days after termination of employment. Employee contributions earn interest at the rate of 4.5% per annum, compounded semiannually.

Employer Contributions

The Plan's funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate sufficient assets to pay benefits when due. Employer contribution rates are level percentages of payroll and are determined using the projected unit credit actuarial funding method. The Plan uses the level dollar method to amortize the unfunded liability over a rolling twenty-five year period. Funding surpluses are amortized over five years.

Contributions made in accordance with actuarially determined contribution requirements determined through actuarial valuations consist of the following:

	1995	**1994**
Employer	$ 156,445	153,302
Employee	83,683	82,503
	$ 240,128	**235,805**
Normal costs	191,046	174,967
Amortization of unfunded actuarial accrued liability	49,082	60,838
	$ 240,128	**235,805**

Actuarial valuations for 1995 and 1994 were performed as of June 30, 1994 and 1993, respectively.

Significant actuarial assumptions used to compute contribution requirements are the same as those used to compute the standardized measure of the pension benefit obligation discussed in note 5.

(8) Retirement Incentive Program

Legislation was passed in June 1989 and amended effective April 1, 1990, establishing a retirement incentive program. The program was available to state employees from October 1, 1989 through March 31, 1990, University of Alaska employees from July 1, 1989 through December 31, 1989, and all other employees from October 1, 1989 through March 31, 1991.

The retirement incentive program receivables represent the reimbursement due from employers participating in the program and is due in minimum equal annual installments so that the entire balance is paid within three years after the end of the fiscal year in which employees retired. The amount of reimbursement is the actuarial equivalent of the difference between the benefits the employee receives after the addition of the retirement incentive under the program and the amount the employee would have received without the incentive, less any amount the employee was indebted as a result of retiring under the program. Employees were indebted to the Plan for the following percentage of their annual compensation for the calendar year in which the

(Continued)

STATE OF ALASKA
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(000s omitted)

employee terminated employment to participate in the program:

Police and fire members	22.50%
Other members	20.25

Any outstanding indebtedness at the time an employee was appointed to retirement resulted in an actuarial adjustment of his/her benefit.

The effect of the 1989 program on the pension benefit obligation was fully accounted for in the June 30, 1990 and 1991 actuarial valuations as the eligible employees retired.

(9) State of Alaska Plan Data

The State of Alaska employees who administer the Plan participate in the Plan.

The State of Alaska contributes to the Plan. The State's unaudited payroll for employees covered by the Plan for the year ended June 30, 1995 was $603,815. Total payroll for the State is not available.

State employees participating in the Plan and Plan benefits are described in note 1.

The State does not have any of its notes, bonds or other financial instruments included in the Plan assets at June 30, 1995.

The Plan's funding status and progress are described in note 5. The total unfunded pension benefit obligation applicable to the State's employees was $329,886 at June 30, 1994, as follows:

State of Alaska net assets available for benefits as of June 30, 1994, at market	$ 2,300,823
State of Alaska pension benefit obligation:	
Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits	1,292,332
Current employees:	
Accumulated employee contributions, including allocated investment income	344,547
Employer-financed, vested	946,495
Employer-financed, nonvested	47,335
Total State of Alaska pension benefit obligation as of June 30, 1994	2,630,709
Unfunded State of Alaska pension benefit obligation as of June 30, 1995	**$ 329,886**

(Continued)

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Notes to Financial Statements
(000s omitted)

Contributions to the Plan are described in note 7. For the year ended June 30, 1995, the State and State employee contributions were as follows:

State of Alaska	$ 93,225
State of Alaska employees	43,248
	$ 136,473
Normal costs	96,407
Amortization of unfunded actuarial accrued liability	40,066
	$ 136,473

Actuarial Present Value of Accumulated Plan Benefits.

The actuarial present value of accumulated Plan benefits was determined by William M. Mercer, Incorporated using the following assumptions:

a. Future salary was not considered.

b. Future service was considered only to the extent that it would permit active Plan participants to become eligible for benefits attributable to service rendered prior to the date of determination.

c. Regular valuation assumptions were used as to mortality, withdrawal, retirement ages, disability and investment return.

At June 30, 1994 the actuarial present value of accumulated Plan benefits was $2,291,637 as follows:

Retired participants and beneficiaries of deceased participants	$ 982,394
Terminated participants with deferred benefits	289,263
Active participants - vested	977,812
Active participants - nonvested	42,168
Actuarial present value of accumulated Plan benefits as of June 30, 1994	**$ 2,291,637**

The change in the actuarial present value of accumulated Plan benefits at June 30, 1994 follows:

Actuarial present value of accumulated Plan benefits as of June 30, 1993	$ 2,078,840
Increase (decrease) attributable to:	
Additional benefits accumulated, including actuarial experience	128,713
Change due to decreases in the discount period	177,627
Estimated benefits paid to participants	(97,640)
Change in assumptions	4,097
Actuarial present value of accumulated Plan benefits as of June 30, 1994	**$ 2,291,637**

(Continued)

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Notes to Financial Statements
(000s omitted)

Trend information related to the State of Alaska portion of the Plan follows:

Pension benefit obligation year ended June 30	Net assets available for benefits	Pension benefit obligation (PBO)	Net assets available as a percent of PBO	Net assets available in excess (unfunded) of PBO	Unaudited annual covered payroll	Unfunded pension benefit obligation as a percent of annual covered payroll
1987	$ 1,159,209	1,142,446	101.47%	$ 16,763	N/A	N/A
1988	1,172,156	1,315,532	89.10%	(143,376)	N/A	N/A
1989	1,334,159	1,480,070	90.14%	(145,911)	N/A	N/A
1990	1,490,489	1,569,554	94.96%	(79,065)	N/A	N/A
1991	1,630,505	1,924,251	84.73%	(293,746)	556,646	52.77%
1992	1,882,661	2,144,472	87.79%	(261,811)	583,968	44.83%
1993	2,199,329	2,350,741	93.56%	(151,412)	594,143	25.48%
1994	2,300,823	2,630,709	87.46%	(329,886)	545,761	60.45%

Pension benefit obligation year ended June 30	Statutory contribution rates			
	State of Alaska		Employees	
	Police and fire participants	Other participants	Police and fire participants	Other participants
1987*	15.74%	11.30%	7.50%	6.75%
1988	13.05%	9.65%	7.50%	6.75%
1989	13.05%	9.65%	7.50%	6.75%
1990	12.53%	10.02%	7.50%	6.75%
1991	14.51%	13.36%	7.50%	6.75%
1992	16.97%	15.64%	7.50%	6.75%
1993	15.45%	14.92%	7.50%	6.75%
1994	17.22%	15.42%	7.50%	6.75%

*Prior to January 1, 1987, police and fire participants contributed 5% and other participants contributed 4.25%.

(Continued)

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Notes to Financial Statements
(000s omitted)

(10) Contingent Liability

The State is party to litigation involving issues surrounding the payment of Plan Medicare premiums and Plan cost-of-living adjustments. While the State has prevailed on summary judgment regarding most of the issues, the plaintiffs were granted summary judgment with respect to their complaint that the appropriate authority had not made the decisions regarding discretionary cost-of-living increases granted for the period 1990 to 1993. The State believes that the outcome of this decision will not have a material impact on the Plan's financial statements.

(11) Historical Trend Information

Historical trend information for 1985 through 1995 designed to provide information about the Plan's progress made in accumulating sufficient assets to pay benefits when due is presented in the accompanying supplemental schedules of analysis of funding progress and revenues by source and expense by type.

Schedule 1

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Required Supplementary Information
Analysis of Funding Progress
(000s omitted)

Pension benefit obligation year ended June 30	Net assets available for Plan benefits	Pension benefit obligation	Percentage funded	Unfunded (assets in excess of) pension benefit obligation	Annual covered payroll (unaudited)	Unfunded (assets in excess of) pension benefit obligation as a percentage of covered payroll
1985	$ 1,295,536	$ 1,446,672	89.6%	$ 151,136	$ 830,579	18.2%
1986	1,739,843	1,556,610	111.8	(183,233)	890,092	(20.6)
1987	2,010,196	1,905,001	105.5	(105,195)	891,302	(11.8)
1988	2,123,695	2,246,585	94.5	122,888	908,363	13.5
1989	2,452,962	2,563,268	95.7	110,306	912,834	12.1
1990	2,746,555	2,753,518	99.7	6,963	952,070	.7
1991	3,017,541	3,339,145	90.4	321,604	1,027,807	31.3
1992	3,454,104	3,740,882	92.3	286,778	1,083,816	26.5
1993	4,007,907	4,125,761	97.1	117,854	1,135,889	10.4
1994	4,177,013	4,620,182	90.4	443,169	1,061,982	41.7

Analysis of the dollar amounts of net assets available for Plan benefits, pension benefit obligation, and unfunded pension benefit obligation in isolation can be misleading. Expressing the net assets available for Plan benefits as a percentage of the pension benefit obligation provides one indication of the Plan's funding status on a going-concern basis. Analysis of this percentage over time indicates whether the Plan is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the Plan. Trends in unfunded pension benefit obligation and annual covered payroll are both affected by inflation. Expressing the unfunded pension benefit obligation as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids analysis of the Plan's progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage, the stronger the Plan. The changes in assumptions disclosed in note 5 of the accompanying financial statements increased the unfunded pension benefit obligation by $85,827.

See accompanying notes to required supplementary information.

Schedule 2

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Required Supplementary Information
Revenues by Source and Expenses by Type
(000s omitted)

Revenues by source

Year ended June 30	Employee contributions	Employer contributions	Interest, dividends and net realized gains on sales	Unrealized appreciation (depreciation) in market value including provision for losses, recoveries and other	Total
1986	$ 42,626	$ 127,727	$ 182,140	$ 159,873	$ 512,366
1987	51,879	103,719	225,792	(27,799)	353,591
1988	66,732	108,767	154,468	(112,755)	217,212
1989	65,104	78,932	194,653	108,088	446,777
1990	69,720	96,418	233,790	17,469	417,397
1991	76,486	132,402	202,888	(823)	410,953
1992	77,674	149,192	282,673	78,450	587,989
1993	81,889	141,368	397,822	95,463	716,542
1994	82,503	153,285	319,104	(207,011)	347,881
1995	83,683	156,445	356,433	299,586	896,147

Expense by type

	Retirement benefits	Medical benefits	Refunds to terminated employees	Administrative expenses	Total
1986	$ 45,916	$ 9,411	$ 9,165	$ 3,567	$ 68,059
1987	57,473	10,256	10,524	4,985	83,238
1988	73,964	11,376	11,409	6,964	103,713
1989	82,389	18,065	11,188	5,868	117,510
1990	85,301	22,142	11,237	5,124	123,804
1991	99,651	23,332	11,965	5,019	139,967
1992	108,360	23,120	11,901	8,045	151,426
1993	114,060	27,879	11,522	9,278	162,739
1994	121,867	36,046	9,584	11,278	178,775
1995	131,634	40,687	12,774	11,257	196,352

Contributions, including contributions for the retirement incentive program, were made in accordance with actuarially determined contribution requirements.

See accompanying notes to required supplementary information.

Schedule 3

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Cash Receipts and Disbursements
(000s omitted)

Years ended June 30, 1995 and 1994

	1995	1994
Deposits in State of Alaska short-term investment pools at beginning of year	$ 1,610	5,694
Add cash receipts:		
Contributions:		
Employers	156,665	152,368
Employee	83,853	82,377
Retirement incentive program	90	2,292
Investment income from interest and dividends	230,217	209,105
Other receipts	7,731	32
Total cash receipts	478,556	446,174
Less cash disbursements:		
Net investment purchases	254,001	272,306
Benefit payments	168,047	154,304
Refunds	16,479	11,458
Administrative expenses	11,238	9,483
Other	4	2,707
Total cash disbursements	449,769	450,258
Deposits in State of Alaska short-term investment pools at end of year	**$ 30,397**	**1,610**

See accompanying notes to required supplementary information.

Schedule 4

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Administrative Expenses
(000s omitted)

Years ended June 30, 1995 and 1994

	Division of Retirement and Benefits	Division of Treasury	Totals 1995	Totals 1994
Personal services:				
Wages	$ 818	414	1,232	1,297
Benefits	553	226	779	716
Other	3	1	4	4
Total personal services	1,374	641	2,015	2,017
Travel:				
Transportation	34	32	66	79
Per diem	27	16	43	47
Honorarium	-	3	3	3
Total travel	61	51	112	129
Contractual services:				
Accounting and auditing	15	949*	964	14
Management and consulting	183	7,125	7,308	8,124
Legal	73	43	116	73
Medical specialists	51	-	51	40
Data processing	220	4	224	271
Other professional services	49	-	49	49
Communications	95	17	112	103
Transportation	1	1	2	2
Advertising and printing	41	144	185	153
Repairs and maintenance	9	-	9	10
Rentals/leases	13	5	18	10
Other services	12	3	15	15
Total contractual services	762	8,291	9,053	8,864
Equipment	31	17	48	234
Supplies	25	4	29	34
Total administrative expenses	**$ 2,253**	**9,004**	**11,257**	**11,278**

*In 1994 this amount was included in management and consulting.

See accompanying notes to required supplementary information.

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Notes to Required Supplementary Information

Years ended June 30, 1995, 1994, 1993, 1992, 1991, 1990, 1989, 1988, 1987,1986 and 1985

All significant accounting policies, benefit provisions and actuarial assumptions are the same for the required supplementary information and the financial statements except as follows:

Effective July 1, 1986, the Plan adopted new actuarial assumptions. Actuarial funding surpluses are amortized over five years rather than twenty-five years. The assumed rate of interest was increased from 8% to 9% per year. The salary scale assumption was lowered to 6.5% per year for the first five years of employment and 5.5% per year thereafter, down from 8% and 7%, respectively. Health care cost inflation was increased to 9% rather than 8%. Turnover and disability assumptions were revised based on actual experience in 1981 through 1985.

Effective July 1, 1990, the health care cost was changed from a flat 9% to the following graduations:

Year	Per annum
1992	12.5%
1993	11.5
1994	10.5
1995	9.5
1996	8.5
1997 and thereafter	7.5

Turnover, retirement and disability assumptions were revised based on actual experience in 1986 through 1990. The assumed rate of interest was lowered to 8.75%. The mortality tables were set forward one year for male members and set backward four years for female members; previously the mortality table had been set back one and one half years for all members. The cost of living allowance was increased from 69% to 71% participation.

Effective June 30, 1992, the actuarial value of all assets equals full market value; previously, fixed income investments were carried at amortized cost.

ACTUARIAL SECTION

WILLIAM M.
MERCER
INCORPORATED

March 14, 1995

State of Alaska
Public Employees' Retirement Board
Department of Administration
Division of Retirement & Benefits
P.O. Box 110203
Juneau, AK 99811-0203

Dear Members of the Board:

Actuarial Certification

The actuarial valuation required for the State of Alaska Public Employees' Retirement System has been prepared as of June 30, 1994 by William M. Mercer, Incorporated. The purposes of the report include:

(1) a review of experience under the Plan for the year ended June 30, 1994;

(2) a determination of the appropriate contribution rate for each employer in the System;

(3) the provision of reporting and disclosure information for financial statements, governmental agencies, and other interested parties.

In preparing this valuation, we have employed generally accepted actuarial methods and assumptions, in conjunction with employee data provided to us by the System's staff and financial information provided by the audited report from KPMG Peat Marwick, to determine a sound value for the System liability. This data has not been audited, but it has been reviewed and found to be consistent, both internally and with prior years' data. The actuarial assumptions are based on the results of experience studies presented to the Board in October 1991 and October 1994.

The contribution requirements are determined as a percentage of payroll, and reflect the cost of benefits accruing in FY95 and a 25-year rolling amortization of the unfunded accrued liability. The amortization period is set by the Board. Contribution levels are recommended by the Actuary and adopted by the Board each year. The ratio of assets to liabilities decreased from 95.4% to 94.8% during the year. Over the years, progress has been made toward achieving the funding objectives of the System.

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A Marsh & McLennan Company

WILLIAM M.
MERCER
INCORPORATED

Public Employees' Retirement Board
March 14, 1995
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There were no significant changes in the demographic actuarial assumptions or actuarial methods used in the determination of system liabilities this year. However, there was a change in the economic actuarial assumptions and asset valuation method. The assumptions and methods, when applied in combination, fairly represent past and anticipated future experience of the System.

The total inflation assumption was changed from 5% to 4% annually. This in turn affected the economic assumptions, including investment return, salary scale, and health cost trend. The following table shows the prior and new economic assumptions:

	Prior Assumption	New Assumption 6/30/94
Inflation	5.0%	4.0%
Investment Return	8.75%	8.0%
Salary Scale:		
Inflation	5.0%	4.0%
Productivity	0.5%	0.5%
Merit (first 5 years)	1.0%	1.0%
Health Cost Trend:		
FY95	9.5%	9.5%
FY96	8.5%	8.5%
FY97	7.5%	7.5%
FY98	7.5%	6.5%
FY99 & later	7.5%	5.5%

The method for calculating valuation assets was changed. The new asset valuation method smooths the difference between expected investment return and actual return during a given year. The method spreads the results over five years by recognizing 20% of the investment gain or loss in each of the current and preceding four years. By spreading the asset gain or loss, only the investment return is smoothed, producing a less volatile result, leading to overall contributions which are easier to budget and at the same time remain appropriate to properly fund the system.

WILLIAM M.
MERCER
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Public Employees' Retirement Board
March 14, 1995
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Future contribution requirements may differ from those determined in the valuation because of:

(1) differences between actual experience and anticipated experience based on the assumptions;

(2) changes in actuarial assumptions or methods;

(3) changes in statutory provisions; or

(4) differences between the contribution rates determined by the valuation and those adopted by the Board.

The undersigned are members of the American Academy of Actuaries and are fully qualified to provide actuarial services to the State of Alaska.

We believe that this report conforms with the requirements of the Alaska statutes, and where applicable, other federal and accounting laws, regulations and rules, as well as generally accepted actuarial principles and practices.

Sincerely,

Brian R. McGee

Brian R. McGee, FSA, MAAA
Managing Director

Peter Godfrey

Peter L. Godfrey, FIA, MAAA
Principal

BRM/JWJ/BJH/jls

Public Employees' Retirement System
Principle Results of the June 30, 1994, Actuarial Valuation

Funding Status as of June 30:	**1993**	**1994**
(a) Valuation Assets*	$ 3,936,776	$ 4,379,305
(b) Accrued Liability*		
i) Non-Medical Benefits	2,963,975	3,377,405
ii) Total Benefits (including medical)	4,125,761	4,620,182
(c) Funding Ratio, (a) / (b)		
i) Non-Medical Benefits	132.8%	129.7%
ii) Total Benefits (including medical)	95.4%	94.8%

* In thousands.

Employer Contribution Rates for Fiscal Year:	**1996**	**1997**
(a) Consolidated Rate	11.29%	10.36%
(b) Average Past Service Rate	1.53%	1.78%
(c) Average Total Contribution Rate	12.82%	12.14%

PERS Actuarial Assumptions and Methods

The demographic assumptions used in this valuation were adopted at the Fall 1991 PERS Board Meeting. Economic assumptions were adopted as a result of a presentation to the Board in October 1994. The funding method used in this valuation was adopted June 30, 1985. The five-year smoothing method used to determine valuation assets was changed effective June 30, 1994.

Valuation of Liabilities

A. Actuarial Method - Projected Unit Credit (no change). Liabilities and contributions shown in the report are computed using the Projected Unit Credit method of funding. The unfunded accrued liability is amortized over a rolling 25 years. Any funded surpluses are amortized over five years.

The objective under this method is to fund each participant's benefits under the plan as they accrue. Thus, each participant's total pension projected to retirement with salary scale is broken down into units, each associated with a year of past or future service. The principle underlying the method is that each unit is funded in the year for which it is credited. Typically, when the method is introduced there will be an initial liability for benefits credited for service prior to that date, and to the extent that this liability is not covered by Assets of the Plan there is an Unfunded Liability to be funded over a chosen period in accordance with an amortization schedule.

An Accrued Liability is calculated at the valuation date as the present value of benefits credited with respect to service to that date.

The Unfunded Liability at the valuation date is the excess of the Accrued Liability over the Assets of the Plan. The level annual payment to be made over a stipulated number of years to amortize the Unfunded Liability is the Past Service Cost.

The Normal Cost is the present value of those benefits which are expected to be credited with respect to service during the year beginning on the valuation date.

Under this method, differences between the actual experience and that assumed in the determination of costs and liabilities will emerge as adjustments in the Unfunded Liability, subject to amortization.

B. Actuarial Assumptions -

1.	Investment Return	8.00% per year, compounded annually, net of expenses.	
2.	Salary Scale	Inflation -	4.0% per year
		Productivity -	0.5% per year
		Merit (first 5 years of employment) -	1.0% per year
3.	Total Inflation	Total inflation as measured by the Consumer Price Index for urban and clerical workers for Anchorage is assumed to increase 4% annually.	
4.	Health Cost Trend	FY95 -	9.5%
		FY96 -	8.5%
		FY97 -	7.5%
		FY98 -	6.5%
		FY99 & later -	5.5%

5. Mortality	1984 Unisex Pension Mortality Table, set forward one year for male and police/fire members, and set backward four years for female members. Deaths are assumed to be occupational 85% of the time for Police/Fire, 35% for "Others".
6. Turnover	Based upon the 1986-90 actual total turnover experience. (See Table 1).
7. Disability	Incidence rates, based upon the 1986-90 actual experience, in accordance with Table 2. Post-disability mortality in accordance with rates published by the Pension Benefit Guaranty Corporation to reflect mortality of those receiving disability benefits under Social Security. Disabilities are assumed to be occupational 85% of the time for Police/ Fire, 35% for "Others".
8. Retirement Age	Retirement rates based upon the 1986-90 actual experience in accordance with Table 3.
9. Spouse's Age	Wives are assumed to be four years younger than husbands.
10. Dependent Children	Benefits to dependent children have been valued assuming members who are not single have one dependent child.
11. Contribution Refunds	100% of those terminating after age 35 with five or more years of service will leave their contributions in the fund and thereby retain their deferred vested benefit. All others who terminate are assumed to have their contributions refunded.
12. C.O.L.A.	Of those benefit recipients who are eligible for the C.O.L.A., 71% are assumed to remain in Alaska and receive the C.O.L.A.
13. New Entrants	Growth projections are made for the active PERS population under three scenarios: Pessimistic: 1% per year Median: 3% per year Optimistic: 5% per year
14. Expenses	Expenses are covered in the investment return assumption.

Valuation of Assets

Effective June 30, 1994, the asset valuation method recognizes 20% of the investment gain or loss in each of the current and preceding four years. All assets are valued at market value. Assets are accounted for on an accrued basis and are taken directly from audited financial statements provided by KPMG Peat Marwick. Valuation assets cannot be outside a range of 80% to 120% of the market value of assets.

Valuation of Medical Benefits

Medical benefits for retirees are provided by the payment of premiums from the fund. A pre-65 cost and lower post-65 cost (due to Medicare) are assumed such that the total rate for all retirees equals the present premium rate assumption. These medical premiums are then increased with the health inflation assumption. The actuarial cost method used for funding retirement benefits is also used to fund health benefits.

For FY96, the pre-65 monthly premium is $458.17 and the post-65 premium is $174.54, based on an assumed total blended premium of $350.50. For FY96, the actual blended premium is $350.50. The FY96 blended premium was provided by the State of Alaska Division of Retirement and Benefits.

Table 1

Alaska Public Employees' Retirement System
Total Turnover Assumptions

Select Rates of Turnover During the First 10 Years of Employment

Ultimate Rates of Turnover After the First 10 Years of Employment

Police and Fire:

Year of Employment	Age at Hire 20-29	Age at Hire 30-39	Age at Hire 40+
1	.22	.18	.10
2	.19	.13	.10
3	.13	.12	.10
4	.12	.12	.10
5	.10	.10	.10
6	.08	.08	.08
7	.07	.07	.07
8	.06	.06	.06
9	.05	.05	.05
10	.04	.04	.04

Age	Rate
20-39	.03
40+	.01

Others:

Year of Employment	Age at Hire 20-29	Age at Hire 30+
1	.30	.23
2	.23	.18
3	.20	.14
4	.16	.13
5	.16	.13
6	.14	.13
7	.12	.12
8	.11	.11
9	.09	.09
10	.08	.08

Age	Rate
20-29	.065
30-34	.060
35-44	.055
45+	.050

Table 2

Alaska Public Employees' Retirement System
Disability Rates
Annual Rates Per 1,000 Employees

Age	Police & Fire Rate	"Other" Member Rate
20	.85	.14
21	.87	.14
22	.90	.14
23	.94	.15
24	.98	.15
25	1.03	.15
26	1.08	.15
27	1.13	.15
28	1.19	.16
29	1.25	.16
30	1.31	.16
31	1.37	.17
32	1.43	.17
33	1.44	.25
34	1.48	.34
35	1.55	.44
36	1.65	.53
37	1.78	.64
38	1.94	.75
39	2.13	.87
40	2.35	.99
41	2.60	1.12
42	2.88	1.25
43	3.19	1.39
44	3.53	1.53
45	3.90	1.68
46	4.30	1.84
47	4.73	2.00
48	5.19	2.17
49	5.68	2.34
50	6.20	2.52
51	6.75	2.70
52	7.33	2.89
53	7.94	3.08
54	8.58	3.29
55	9.25	3.49
56	9.95	3.70
57	10.68	3.92
58	11.44	4.14
59	12.23	4.37
60	13.05	4.61
61	13.90	4.84
62	14.78	5.09
63	15.69	5.34
64	16.63	5.60

Table 3

Alaska Public Employees' Retirement System
Retirement Rates

Age	Police & Fire Rate	"Other" Member Rate
50	.25	.11
51	.14	.08
52	.14	.08
53	.15	.08
54	.15	.08
55	.30	.19
56	.25	.16
57	.21	.13
58	.21	.12
59	.20	.11
60	.20	.17
61	.40	.14
62	1.00	.21
63	1.00	.22
64	1.00	.22
65	1.00	.31
66	1.00	.61
67 & Up	1.00	1.00

For ages less than 50, employees are assumed to retire two years after the earliest age they are eligible to retire.

Public Employees' Retirement System
Schedule of Active Member Valuation Data

Valuation Date	Number	Annual Payroll (000s)	Annual Average Pay	Percent Increase In Average Pay
All Others				
June 30, 1994	28,883	$1,048,541	$36,303	2.3%
June 30, 1993	28,509	1,011,864	35,493	4.2%
June 30, 1992	28,206	961,054	34,073	2.5%
June 30, 1991	27,307	907,567	33,236	4.6%
June 30, 1990	26,667	846,935	31,760	.6%
June 30, 1989	25,630	808,835	31,558	(4.7)%
June 30, 1988	24,349	806,100	33,106	2.4%
June 30, 1987	24,443	790,463	32,339	3.6%
June 30, 1986	25,272	788,555	31,203	4.7%
June 30, 1985	24,776	738,198	29,795	.7%
Police/Fire				
June 30, 1994	2,481	$128,456	$51,776	2.8%
June 30, 1993	2,463	124,025	50,355	3.2%
June 30, 1992	2,515	122,762	48,812	2.8%
June 30, 1991	2,533	120,240	47,470	9.2%
June 30, 1990	2,419	105,135	43,462	.9%
June 30, 1989	2,414	104,000	43,082	(2.0)%
June 30, 1988	2,327	102,265	43,947	1.0%
June 30, 1987	2,319	100,839	43,484	1.5%
June 30, 1986	2,371	101,537	42,825	11.6%
June 30, 1985	2,407	92,381	38,380	1.9%

Public Employees' Retirement System
Schedule of Retirants and Beneficiaries Added to and Removed from Rolls

	Added to Rolls		Removed from Rolls		Rolls - End of Year		Percent Increase in Annual Allowances	Average Annual Allowance
Year Ended	No.*	Annual Allowances*	No.*	Annual Allowances*	No.	Annual Allowances		
All Others								
June 30, 1994	567	$7,584,088	100	$ 225,631	8,843	$103,603,787	7.6%	$11,716
June 30, 1993	464	5,408,670	93	4,057,669	8,376	96,245,330	1.4%	11,491
June 30, 1992	435	8,520,963	116	1,323,560	8,005	94,894,329	8.2%	11,854
June 30, 1991	876	15,277,842	8	85,072	7,686	87,696,926	21.0%	11,410
June 30, 1990	457	5,776,756	94	986,060	6,818	72,504,156	7.1%	10,634
June 30, 1989	352	3,651,450	212	2,225,364	6,455	67,713,460	2.2%	10,490
June 30, 1988	1,014	11,532,405	35	361,515	6,315	66,287,374	20.3%	10,497
June 30, 1987	1,011	14,821,733	31	288,827	5,336	55,116,484	35.8%	10,329
June 30, 1986	416	3,718,750	110	1,029,270	4,356	40,583,578	7.1%	9,317
June 30, 1985	484	7,490,537	102	869,652	4,050	37,894,098	21.2%	9,357
Police/Fire								
June 30, 1994	77	$2,428,767	4	$119,939	800	$20,486,527	12.7%	$25,608
June 30, 1993	39	982,991	11	212,565	727	18,177,698	4.4%	25,004
June 30, 1992	35	1,202,004	8	195,248	699	17,407,272	6.1%	24,903
June 30, 1991	129	3,408,774	4	95,704	672	16,400,516	25.3%	24,406
June 30, 1990	38	907,997	3	71,784	547	13,087,446	6.8%	23,926
June 30, 1989	128	2,686,748	3	74,724	512	12,251,233	27.1%	23,928
June 30, 1988	72	1,991,318	-	-	387	9,639,209	26.0%	24,908
June 30, 1987	96	3,054,160	82	1,720,032	315	7,647,891	21.1%	24,279
June 30, 1986	36	949,954	2	40,482	301	6,313,763	16.8%	20,976
June 30, 1985	77	1,966,581	1	18,093	267	5,404,291	56.4%	20,241

* Numbers are estimated, and include other internal transfers.

Public Employees' Retirement System
Summary of Accrued and Unfunded Accrued Liabilities

Valuation Date	Aggregate Accrued Liability (000s)	Valuation Assets (000s)	Assets as a Percent of Accrued Liability	Unfunded Accrued Liabilities (UAL) (000s)	Annual Active Member Payroll (000s)	UAL as a Percent of Annual Active Member Payroll
All Others						
June 30, 1994[1][2]	$3,887,194	$3,684,532	94.8%	$202,662	$1,048,541	19.3%
June 30, 1993	3,486,322	3,326,627	95.4%	159,695	1,011,864	15.8%
June 30, 1992[1]	3,148,364	2,869,772	91.2%	278,592	961,054	29.0%
June 30, 1991[2]	2,815,819	2,481,018	88.1%	334,801	907,567	36.9%
June 30, 1990	2,331,243	2,266,871	97.2%	64,372	846,935	7.6%
June 30, 1989[2]	2,161,247	1,980,098	91.6%	181,149	808,835	22.4%
June 30, 1988	1,921,949	1,786,648	93.0%	135,301	806,100	16.8%
June 30, 1987	1,621,470	1,615,723	99.6%	5,747	790,463	.7%
June 30, 1986	1,306,937	1,332,956	102.0%	-	788,555	-
June 30, 1985[2][3]	1,114,997*	1,046,982*	93.9%	68,015	738,198	9.2%
Police/Fire						
June 30, 1994[1][2]	$732,988	$694,773	94.8%	$38,215	$128,456	29.7%
June 30, 1993	639,439	610,149	95.4%	29,290	124,025	23.6%
June 30, 1992[1]	592,518	540,087	91.2%	52,431	122,762	42.7%
June 30, 1991[2]	523,326	461,103	88.1%	62,223	120,240	51.7%
June 30, 1990	422,275	410,615	97.2%	11,660	105,135	11.1%
June 30, 1989[2]	402,021	368,325	91.6%	33,696	104,000	32.4%
June 30, 1988	324,634	301,780	93.0%	22,854	102,265	22.3%
June 30, 1987	283,535	282,530	99.6%	1,005	100,839	1.0%
June 30, 1986	249,673	254,643	102.0%	-	101,537	-
June 30, 1985[2][3]	213,967*	201,164*	93.9%	12,803	92,381	13.9%

* Estimated
[1] Change in Asset Valuation Method.
[2] Change of Assumptions.
[3] Change in Funding Method.

PERS Solvency Test

Valuation Date	Aggregate Accrued Liability For: (1) Active Member Contributions (000s)	(2) Inactive Members (000s)	(3) Active Members (Employer-Financed Portion) (000s)	Valuation Assets (000s)	Portion of Accrued Liabilities Covered by Assets (1)	(2)	(3)
June 30, 1994[1][2]	$615,925	$2,233,349	$1,770,908	$4,379,305	100%	100%	86.4%
June 30, 1993	551,753	1,921,967	1,652,041	3,936,776	100%	100%	88.6%
June 30, 1992[1]	484,590	1,783,020	1,473,272	3,409,859	100%	100%	77.5%
June 30, 1991[2]	422,656	1,621,590	1,294,899	2,942,121	100%	100%	69.3%
June 30, 1990	380,680	1,285,515	1,087,323	2,677,486	100%	100%	93.0%
June 30, 1989[2]	329,966	1,217,648	1,015,654	2,348,423	100%	100%	78.8%
June 30, 1988	305,483	1,030,048	911,052	2,088,428	100%	100%	82.6%
June 30, 1987	216,504	820,853	867,648	1,898,253	100%	100%	99.2%
June 30, 1986	210,115*	493,724	852,771*	1,587,599	100%	100%	100.0%
June 30, 1985[2][3]	169,433	466,222	693,574*	1,248,146	100%	100%	88.3%

* Estimated
[1] Change in Asset Valuation Method.
[2] Change of Assumptions.
[3] Change in Funding Method.

PERS Analysis of Financial Experience

Change in Average Contribution Rate Due to Gains and Losses in Accrued Liabilities During the Last Five Fiscal Years Resulting From Differences Between Assumed Experience and Actual Experience

Type of Gain or Loss	Change in Contribution Rate During Fiscal Year 94	93	92	91	90
(1) Health Experience	.41%	-	-	(3.17)%	(1.42)%
(2) Salary Experience	(.55)%	(.21)%	(.56)%	.26%	(.07)%
(3) Investment Experience	.37%	(1.41)%	(.16)%	.48%	(.67)%
(4) Demographic Experience	.36%	.74%	1.58%	2.02%	.68%
(5) Miscellaneous	-	-	-	-	.86%
(6) Gain (or Loss) During Year From Experience, (1) + (2) + (3) + (4) + (5)	.59%	(.88)%	.86%	(.41)%	(.62)%
Non-recurring Items					
(7) Asset Valuation Method	(.56)%	-	(.88)%	-	-
(8) Assumption Changes	(.71)%	-	-	.55%	-
(9) Plan Changes	-	-	-	-	-
Composite Gain (or Loss) During Year, (6) + (7) + (8) + (9)	(.68)%	(.88)%	(.02)%	.14%	(.62)%

INVESTMENT SECTION

Alaska State Pension Investment Board

P.O. Box 110400 Juneau, Alaska 99811-0400
(907) 465-4880

Message from the Chairman

TO OUR PARTICIPANTS AND BENEFICIARIES

I am pleased to present you, the participants and beneficiaries of this retirement trust fund, with the 1995 Annual Report of Investments.

Fiscal year 1995 was a challenging, yet successful year for the Alaska State Pension Investment Board. The bond market went from one of its worst to one of its best years during the fiscal year, and thanks to our dedicated staff working with an adaptable asset allocation plan, we were able to sustain a rate of return that holds up well against any comparable pension plan.

The Alaska State Pension Investment Board was created as of July 1, 1993. Since that time, we have taken tremendous strides forward. The strength and knowledge that comes with continuity has enabled us to make difficult decisions in the ever changing financial world.

I was honored to be reelected in January 1995 to serve four additional years and also selected as Chairman this year. Mr. William A. Corbus was reappointed as trustee by Governor Tony Knowles, clearly indicating confidence in Mr. Corbus's abilities and appreciation for his contributions to the Board. The Board was also very pleased with Governor Knowles' appointment of Wilson L. Condon, Commissioner of Revenue who by statute serves on the Board.

The Alaska State Pension Investment Board represents close to sixty thousand participants and beneficiaries of the retirement systems. As fiduciaries of funds worth billions of dollars, the members of the Board believe that you, the plan participants, should be well informed about the investments of your retirement system. We encourage you to express your views to your representatives on the Board.

The annual review and adoption of the asset allocation plan continues to be one of the most important activities of the Board. The asset allocation plan adopted by the Board on March 30, 1995 called for an investment distribution as follows: 40% in U.S. Equities, 9% in International Equities, 48% in Domestic Fixed Income and 3% in Real Estate. This portfolio structure is on the "efficient frontier," a phrase that means an asset mix designed to create the highest expected return from a given level of risk. Investment returns for the year ending June 30, 1995 were 15.56% for the Public Employees' fund. These returns were above the average for public plans, and well above actuarial assumption of what the returns are expected to average over the long run.

Nearly one-half of the fund's assets are fixed income securities invested by the investment staff of the Department of Revenue. These seasoned professionals are working hard on your behalf. Investment returns over the past five years have exceeded the returns on the Lehman Brothers Aggregate index and ranked our fixed income performance in the top third of public funds. Returns from fixed income investments for fiscal year 1995 were similar to the index and were in the top third of public funds.

The Board is fortunate to have three Investment Advisory Council members who possess experience and expertise in financial investments and management of investment portfolios. The Board has just completed a rigorous review to select two new members to this council. The two individuals just selected bring a combined total of sixty years of professional hands on investment experience to our deliberative Board process.

Notice of Board meetings are published in advance and we encourage your attendance so that we may answer your questions and hear your suggestions. We intend to rotate our meetings throughout the state in the larger communities.

On behalf of all the Trustees, thank you for giving us the opportunity to serve you.

ALASKA STATE PENSION INVESTMENT BOARD

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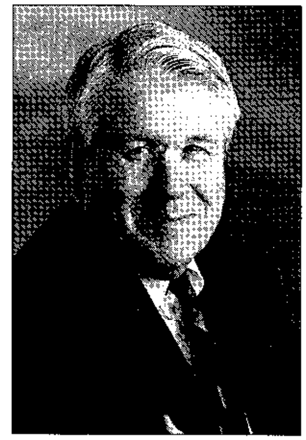

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Tactical Asset Allocation
Wells Fargo Nikko Investment Advisors
San Francisco, CA

Domestic Equity Index
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Boston, MA

Global Equity
Lazard Frères Asset Management
New York, NY
Miller, Anderson & Sherrerd
West Conshohocken, PA

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International Equity - Europe
Citibank Global Asset Management
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International Equity - Pacific Basin EX Japan
G.T. Capital Management
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Wellington Management Co.
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The U.S. Economy

In fiscal year 1995, the U.S. economy had a gross domestic product growth rate of 2.8%. The economy produced a 4.2% average growth rate during the first half of the year but only mustered a 1.9% growth rate in the second half.

Most of the second half slow down was caused by a drastic decline in manufacturing activities as U.S. companies curtailed their pace of restocking inventories. Initially, inventory accumulated at an annual rate of $50 billion but subsequently slowed to a rate of $30 billion. The Commerce Department singled out the auto sector as the main factor in slowing down inventory accumulation.

Despite the volatility in economic activity, the underlying inflation pressure remained benign. The consumer price index increased 3% during the fiscal year while the producer price index rose at a moderate rate of 2.2%. Price pressure in the production pipeline, which was evident early in the year, dissipated. Other indicators also reflected a favorable inflation picture. Key commodity prices remained stable, easing inflation pressures. The price of gold closed the year at $395 per ounce while crude oil finished at $17 per barrel. Both commodities experienced a mild price decline during the year.

The key contributor to the year's contained inflation was unit labor cost. Economists have long agreed that unit labor cost accounts for two thirds of the manufacturing cost in the United States. During the last four years the increase in unit labor cost averaged less than 1% compared to an annual rate of 4.1% during the 1980s. This is the outcome of the restructuring trend that corporate America started in the late 1980s. U.S. companies have zealously curtailed their personnel expenses.

Job growth was anemic, generating an average of only 200,000 new jobs every month in fiscal year 1995, a level that is substantially below the historical average for a recovering economy. Simultaneously, U.S. companies invested heavily in technology during the last few years. The latest survey from the Commerce Department indicated capital expenditures should continue to grow at a healthy pace.

America's productivity has surged with this technology boom. Despite being five years into the current economic recovery, productivity increased 3.5% during the fourth quarter of the fiscal year. America enjoyed a 2.2% annual growth in productivity during the last five years and has surpassed Japan and Germany as the most competitive producer.

The initial economic strength in fiscal year 1995 allowed the Federal Reserve Bank to maintain a tight monetary policy. Federal Reserve officials, concluding that economic growth would lead to higher inflation, raised short term interest rates three times during the year with the last rate hike in February. The federal funds rate was increased by 1.75% and closed out the year at 6%. Interest rate-sensitive sectors of the economy were hit hard. Final demands for the auto and housing sectors dropped off significantly in the second half of the year.

The year finished with the Federal Reserve Bank firmly committed to its long term price stability objective. The Federal Reserve Bank appears to have successfully engineered a slow down in the economy. More importantly, the economy entered its sixth year of the expansion without triggering any inflation pressures.

Investment Overview

Fiscal year 1995 was the second year that the Alaska State Pension Investment Board (ASPIB) had fiduciary responsibility for the assets of the Public Employees' Retirement System (PERS). The eight member Board is charged with the duty of ensuring that the assets of the PERS Fund are managed effectively.

Annually, the Trustees of ASPIB analyze a wide array of asset classes, examining expected returns and risk parameters. This review is necessary to ensure that the optimal combinations of investments are balanced with the Fund's long term objective of meeting future liabilities.

ASPIB's determination to maintain long term investment objectives was never more important than this past fiscal year. Many investors reacted defensively in response to the Federal Reserve Bank raising short-term interest rates late in the prior fiscal year. During this period, ASPIB did not waver from its long term investment strategies.

ASPIB's thorough review process, using an independent consulting firm and a disciplined investment approach, earned 15.56% for the Fund in the fiscal year. Three and five year periods also earned double digit returns. On an annualized basis the Fund earned 10.69% for the last three years and 10.16%, for the last five years.

During the ongoing review process, ASPIB compares the Fund's investment returns against a relevant universe of other public funds. The investment returns for the Fund continue to be well above median over all time periods. More importantly, these returns continue to be in excess of the actuarial earning rate needed to meet future liabilities.

Fixed Income

The Public Employees' Retirement System's $2.3 billion of fixed income investments are managed by staff of the Alaska Department of Revenue, Treasury Division.

The fixed income performance was exceptional during fiscal year 1995. In spite of the volatile year, the Fund's fixed income investment performance was similar to that of the investment benchmark, the Lehman Brothers Government Corporate Index.

The conservative investment approach, which protected the Fund's assets in the difficult market during fiscal year 1994, still produced excellent results in fiscal year 1995. The Fund's fixed income investments produced a return of 12.71% compared to a return of 12.76% for the investment index.

The year began with the portfolio structured to reduce the impact of rising interest rates, while retaining the flexibility to take advantage of market rallies. At the end of the fiscal year the portfolio had a higher yield than the investment index at 6.41% compared to 6.35% for the index.

The three and five year returns are excellent both on an absolute basis and compared to the index. These results were produced by a strategy designed for consistent long term returns with limited risk. The strategy is based on three key principles:

- First, investing is a long term undertaking. Therefore, long term trends, objectives, and risk/returns analysis should guide the process. Short term opportunities or trends may appear but the longterm focus must not be lost.

- Second, investment efforts should be focused where the long term risk return relationship is most advantageous. Research, based on data from 1926 to 1994, found that corporate bonds have produced greater returns with less risk than government bonds of similar maturity. PERS' investments are focused on intermediate corporate and government bonds (5 to 12 year maturity) because research has shown that these bonds have produced superior returns with significantly less risk than long term bonds.

- Diversification and risk control are the final keys to the PERS investment portfolio. The corporate bond investments are restricted to investment grade bonds. There are no "junk bonds" in the portfolio. PERS will not purchase more than 10% of any individual issue and no individual issuer's debt will comprise more than 5% of the total portfolio. These and other restrictions preserve the liquidity of the portfolio and provide excellent diversification.

The fiscal year began with interest rates rising as the Federal Reserve Bank continued to tighten monetary policy to guard against a significant increase in inflation. By the middle of November 1994 the yield on the United States Treasury ten year note was above 8%, having started the year at 7%. Inflation expectations began to wane as market participants became convinced the Federal Reserve Bank had effectively moderated economic growth to a sustainable level. Through the second half of the fiscal year the economy continued to slow and inflation expectations continued to moderate.

Events in the international currency markets also supported the fixed income market rally in an indirect way. Foreign central banks, attempting to raise the value of the dollar, contributed to the rally by making large purchases of United States Treasury notes. The declining value of the dollar also made United States stocks and bonds more attractive to foreign investors once the dollar's value stabilized. All of this resulted in one of the strongest fixed income market rallies in history. Of the 12.71% return for the entire fiscal year, 11.67% came in the second half of the year.

Several other items contributed to the strong returns of the portfolio.

- The stable economy indirectly boosted investment returns.
- The moderate economy growth also helped reduce the required credit premium on corporate bonds.
- The issuance of new corporate bonds continued at a moderately slow pace.

As a result, corporate bonds had better performance than United States Treasury securities with similar maturities. In fiscal year 1995 the PERS portfolio continued to enjoy the higher yield of corporate bonds.

The PERS portfolio had a slightly shorter maturity and a greater concentration in high grade corporate bonds than the Lehman Brothers Government Corporate Index. It is these two characteristics that gave the portfolio its returns which are comparable to the index.

Equities

The well-diversified investments of the PERS' $2.0 billion domestic equity and $383 million international equity portfolios are designed to limit risk from a specific company or economic region. This is achieved by hiring multiple equity managers who have a record of accomplishments with specific types of portfolios and mandates.

Domestic equity managers are contracted by the Alaska State Pension Investment Board because of their expertise in managing specific portfolio styles. These styles include growth and value stocks as well as large and small capitalization companies.

Multiple managers are employed to reduce risk in a given style or mandate. Should growth stocks perform poorly, for example, another style such as value stocks or smaller company stocks may well have greater returns.

The same approach is employed with the international equity portfolio. Several external managers are employed who have regional expertise. This is exemplified by the Fund's approach to using managers for our European and Pacific Basin portfolios who have demonstrated their skills in these areas.

The domestic and international equity portfolios earned above average returns for fiscal year 1995. The domestic equity portfolio returned 22.82% for the year which compares favorably to the median active management returns of 22.68%. While quite favorable, it should be noted that the relevant Standard & Poor's (S & P) 500 Index returned 26.08%. Returns for longer time periods show performance that is comparable to the S & P 500 Index. The annualized results for three years is 13.78% versus index returns of 13.18%. Five year annualized return were 11.74% versus 12.05% for the S & P 500 Index.

International equities earned 3.40% for the year ending June 30, 1995. These returns exceeded the benchmark Morgan Stanley Capital International, Europe, Australia, and Far East (EAFE) Index by 1.74%. As was the case for domestic equities, the international equity portfolio had returns that compared favorably to the EAFE Index for longer periods of time. The annualized rate of return for three years is 12.11% versus 12.68% for the benchmark index and 6.92% versus 4.69% for five years.

Quarterly Highlights

Quarter ending September 30, 1994:

The domestic and international equity market earned positive returns for the quarter. Domestic equities, buoyed by rising corporate profits, returned 4.9%. The best performing sectors were consumer staples and raw and intermediate materials, with returns of 13.17% and 11.58% respectively. The weakest sectors were transportation and financials, with returns of negative 6.18% and negative 1.60%

The international equity market earned a return of 0.1%. Japan, the largest component of the EAFE Index, was the poorest performing market with negative returns of 5.3%. Markets with the highest return were Finland, 24.8%, Malaysia, 13.7% and Ireland, 13.0%.

Quarter ending December 31, 1994:

Domestic equities traded in a narrow range for the quarter and ended with a slightly negative return of 0.01%. Prices of domestic stocks were restrained by rising interest rates. The Federal Reserve Bank raised short-term interest rates by 0.75% during this quarter. Consumer staples continued to be the best performing sector with returns of 3.52%. The second best sector was technology with a positive 2.9%. The weakest sectors, much as the preceding quarter, were raw and intermediate materials, negative 7.48% and financials, negative 3.05%.

International equities were hurt by poor performance in Asia. For the quarter, the international portfolio had a return of negative 1.0%. The poorest performing markets were Hong Kong, negative 14.2%, Malaysia, negative 13.3% and Japan, negative 1.3%. The best performing international equity markets were Norway, 11.8%, Sweden, 5.0% and the Netherlands, 4.2%.

Quarter ending March 31, 1995:

Domestic equities were the best performing asset class for the quarter ending March 31, 1995. As measured by the S & P 500 Index, the domestic equity market returned 9.73%. Within this index, stocks with positive returns outnumbered stocks with negative returns by a ratio of six to one during this quarter. Moderate economic growth and the perception that the Federal Reserve Bank would not be required to raise short-term interest rates were the catalyst for the high returns.

The best performing sectors of the S & P 500 Index were the transportation and financial sectors, with returns of 15.35% and 12.72% respectively. Utility and consumer cyclical stocks were the poorest sectors, but still had returns of 6.89% and 7.66% respectively.

This quarter's currency fluctuation played a critical role in the performance of the international portfolio. International equities performed poorly on a local currency basis with a negative 7.79% return. Due to a weakening United States dollar, however, international equity returns as measured by the EAFE Index resulted in a U.S. dollar-based return of 1.29%. In U.S. dollar terms, the best performing international equity markets were France, 12.5% and Switzerland, 12.0%. The poorest performing markets were Italy, negative 8.3% and Norway, negative 4.1%.

Quarter ending June 30, 1995:

Signs of a slowing economy, and subdued inflation continued to ease investors' fears of rising short-term interest rates. This positive environment and the possibility of the Federal Reserve Bank considering lower short-term interest rates continued to propel domestic equities.

For the second quarter in a row, the U.S. stock market was the best performing asset class returning 9.53% as measured by the S & P 500 Index. The technology and financial sector continued to lead with returns of 19.86% and 12.35% respectively.

Energy was the weakest sector with a return of 3.07%.

International equities had positive returns of 0.73%. These returns were earned despite a weak Japanese market, returning a negative 6.3%. The highest returns were posted by Finland, 34.3%, Sweden, 15.6% and Spain, 15.1%.

Real Estate

The Public Employees' Retirement System (PERS) had $104 million invested during fiscal year 1995 in real estate investments through commingled funds administered by nationally recognized investment managers. The NCREIF Index, a national barometer of commingled fund performance, reflected the continued improvement in the real estate market with one-year returns increasing from 4.07% in fiscal year 1994 to 7.83% in fiscal year 1995.

The returns from real estate equities held by PERS increased from 7.01% in fiscal year 1994 to 7.89% in fiscal year 1995. The return for the current year is also a significant improvement over the portfolio's three-year return of 4.65% and five-year negative return of 2.38%.

While the real estate market enjoyed continued improvement, different property types and geographical locations experienced varying degrees of success. In certain growth markets apartments performed well, with rental rates climbing to replacement cost levels, which spurred new construction. But values in many markets have peaked, so the demand for apartment investments was not as strong as in recent years.

Improved market fundamentals increased the desirability of industrial properties. As the economy expanded, vacant space was substantially reduced by increased demand and a very low rate of speculative construction. Income growth accelerated, and industrial property values increased. Investment interest continued as attractive returns were available in many markets.

Premium retail properties continued to experience upward price movement. The most desired property types were the upper-tier regional and super-regional malls and "power centers" that include merchandisers such as K-Mart, Price/Costco, and Toys-R-Us. Many investors concluded that malls were overpriced and many markets had become saturated with power centers. Institutional investors were extremely selective in their retail property purchases because of the ever changing retail environment and the reduced income returns available.

The office market became a prime target for many investors because of its higher return potential and improved market fundamentals. Office space is the only remaining major property type selling at prices significantly below replacement cost. While vacancies are declining, mergers and corporate downsizing have hindered recovery.

The real estate markets in Seattle and Portland continued to experience solid growth. Salt Lake City, Phoenix, and Las Vegas are peaking with slower rates of recovery than projected. A continued rapid market expansion is expected in Chicago, Orlando, Atlanta, and a sizable portion of North Carolina, but portions of California and the Northeast are likely to see continued slow or no growth.

Improved market fundamentals and significant capital flows from private, public, and institutional equity investors provided the impetus for improvement in the real estate markets, leading many analysts to conclude that this asset class is at the midpoint of a recovery from the greatest real estate debacle since the depression.

Public Employees' Retirement System
Investment Summary Schedule
Year Ended June 30, 1995
(000s omitted)

	6/30/94 Book Value	6/30/94 Market Value	Purchases & Reinvested Income	Maturities, Sales and Amortizations	6/30/95 Book Value	6/30/95 Market Value	% Total Market
Marketable Debt Securities							
U.S. Government Debt	$ 884,568	$ 943,017	$ 385,723	$ 281,665	$ 940,544	$1,047,075	21.80%
Federal Agency Debt	56,611	57,493	62,016	3,712	112,421	115,797	2.41
Corporate Debt	712,381	727,399	635,694	239,681	1,065,267	1,123,412	23.40
Commercial Paper	164,356	164,342	366,916	488,700	42,557	42,558	0.89
Other Dollar Denominated Securities*	130,082	124,768	79,443	204,211	-	-	-
Equity Securities							
Domestic Equity Pool	1,493,641	1,593,533	395,481	3,369	1,682,607	1,985,645	41.35
International Equity Pool	325,978	360,726	14,907	27,929	318,235	347,704	7.24
Emerging Markets Equity Pool	35,300	36,247	(681)	-	36,184	35,566	0.74
Real Estate							
Mortgage Loans, Net of Allowance	5,664	5,664	-	1,761	3,903	3,903	0.08
Real Estate Equity Investments	157,657	116,089	9,067	24,889	137,585	100,267	2.09
Total Investments	**$ 3,966,238**	**4,129,278**	**1,948,566**	**1,275,917**	**4,339,303**	**4,801,927**	**100.00%**

* Combined with Corporate Debt on 6/30/95.

Public Employees' Retirement System
Schedule of Investment Results
Fiscal Years Ended June 30

						Annualized	
	1991	**1992**	**1993**	**1994**	**1995**	**3 Year**	**5 Year**
Total Fund							
PERS	7.21%	11.60%	14.25%	2.71%	15.56%	10.69%	10.16%
CPI	4.69%	3.09%	2.82%	2.39%	3.08%	2.76%	3.16%
U.S. Common Stock Returns							
PERS Domestic Equities	5.87%	11.10%	15.66%	3.69%	22.82%	13.78%	11.74%
S&P 500	7.41%	13.45%	13.58%	1.24%	26.08%	13.18%	12.05%
International Stock Returns							
PERS International Equities	(7.97%)	7.74%	9.41%	24.56%	3.40%	12.11%	6.92%
Morgan Stanley Capital Internt'l EAFE	(11.53%)	(0.64%)	20.28%	17.00%	1.66%	12.68%	4.69%
Domestic Fixed Income							
PERS	10.32%	15.10%	15.17%	(1.01%)	12.71%	8.71%	10.29%
Lehman Brothers Government/Corporate	10.21%	14.17%	13.15%	(1.45%)	12.76%	7.93%	9.61%
Real Estate Equity							
PERS	(12.57%)	(11.52%)	(0.74%)	7.01%	7.89%	4.65%	(2.38%)
NCREIF Index	(1.24%)	(6.83%)	(3.51%)	4.07%	7.83%	2.68%	(0.07%)

CPI = Consumer Price Index
S&P 500 = Standard and Poor's Domestic Equity Stock Index
EAFE = Europe, Australia, and Far East Stock Index
NCREIF = National Council of Real Estate Investment Fiduciaries Index

Public Employees' Retirement System
Schedule of Investment Management Fees
Year Ended June 30, 1995

Investment Advisors	
Callan Associates, Inc.	$ 15,131
Investment Advisory Council	28,429
Performance Measurement	
Callan Associates, Inc.	93,962
Real Estate Consultants	
The Townsend Group	31,692
Domestic Equity Managers	
Ark Asset Management Co., Inc.	746,648
Capital Guardian Trust Co.	190,125
IDS Advisory Group	459,664
Invesco MIM, Inc.	516,791
John McStay Investment Counsel	615,454
MacKay-Shields Financial Corp.	223,596
Newbold's Asset Management, Inc.	235,577
The Putnam Companies	453,913
RCM Capital Management	470,555
State Street Global Asset Management	158,398
Tactical Asset Allocation Managers	
Wells Fargo Nikko Investment Advisors	606,923
Global Equity Managers	
Lazard Freres Asset Management	436,915
Miller, Anderson & Sherrerd	639,616
International Equity Managers	
Citibank Global Asset Management	224,293
G.T. Capital Management	314,315
J.P. Morgan Investment Management, Inc.	375,916
Wellington Management Co.	290,183
Emerging Markets	
J.P. Morgan Investment Management, Inc.	172,239
Capital Guardian Trust	180,676
Total	**$7,481,011**

STATISTICAL SECTION

Public Employees' Retirement System System Membership					
Year	**Active**	**Retirees & Beneficiaries**	**Vested Terminations**	**Nonvested Terminations w/Balance**	**Total**
1985	27,183	4,317	1,525	7,945	40,970
1986	27,643	4,657	1,766	8,155	42,221
1987	26,762	5,651	1,921	3,965	38,299
1988	26,676	6,702	1,898	3,101	38,377
1989	28,044	6,967	2,314	3,365	40,690
1990	29,086	7,365	2,745	3,695	42,891
1991	29,840	8,358	3,015	4,108	45,321
1992	30,721	8,704	3,249	4,380	47,054
1993	30,972	9,103	3,572	4,721	48,368
1994	31,364	9,643	3,771	4,859	49,637

Public Employees' Retirement System Active Members Average Age, Service, and Salary				
Year	**Number**	**Average Age**	**Average Credited Service**	**Average Annual Salary**
1985	27,183	38.65	5.51	$ 30,555
1986	27,643	39.21	5.96	32,200
1987	26,762	39.53	6.32	33,305
1988	26,676	39.67	6.45	34,052
1989	28,044	40.17	6.66	32,550
1990	29,086	40.37	6.82	32,733
1991	29,840	40.68	6.91	34,444
1992	30,721	41.21	7.22	35,280
1993	30,972	41.75	7.62	36,675
1994	31,364	42.18	7.92	37,527

Public Employees' Retirement System
Schedule of Retired Members by Type of Retirant and Option Selected
June 30, 1994

Amount of Monthly Benefit	Number of Retirees	Type of Retirement 1	Type of Retirement 2	Type of Retirement 3	Option Selected # Opt. 1	Opt. 2	Opt. 3	Opt. 4
Others								
$ 1 - $ 300	1,057	895	150	12	716	159	140	42
301 - 600	2,397	2,162	193	42	1,604	397	268	128
601 - 900	1,753	1,620	114	19	1,087	332	172	162
901 - 1200	1,173	1,071	71	31	749	195	137	92
1201 - 1500	797	723	39	35	512	147	75	63
1501 - 1800	498	454	17	27	298	86	62	52
1801 - 2100	372	345	13	14	202	79	49	42
2101 - 2400	261	244	10	7	141	58	30	32
2401 - 2700	193	182	5	6	107	42	25	19
2701 - 3000	119	109	7	3	52	44	14	9
over 3000	223	215	4	4	105	60	35	23
Totals	8,843	8,020	623	200	5,573	1,599	1,007	664
Police/Fire								
$ 1 - $ 300	12	11	1	-	4	5	2	1
301 - 600	45	33	5	7	28	11	3	3
601 - 900	58	54	3	1	36	10	5	7
901 - 1200	55	46	6	3	35	5	8	7
1201 - 1500	60	44	5	11	36	7	8	9
1501 - 1800	75	56	4	15	39	28	6	2
1801 - 2100	87	76	5	6	42	28	10	7
2101 - 2400	76	68	1	7	28	29	12	7
2401 - 2700	91	88	1	2	40	27	10	14
2701 - 3000	78	75	-	3	30	31	6	11
over 3000	163	152	4	7	61	64	20	18
Totals	800	703	35	62	379	245	90	86

Type of Retirement

1 - Normal retirement
2 - Survivor payment
3 - Disability retirement

Option 1 - Whole Life Annuity
Option 2 - 75% Joint and Survivor Annuity
Option 3 - 50% Joint and Survivor Annuity
Option 4 - 66-2/3 % Joint and Survivor Annuity

Public Employees' Retirement System
Schedule of Average Benefit Payments
New Retirees

	Years of Credited Service						
	0 - 4	5 - 9	10 - 14	15 - 19	20 - 24	25 - 29	30+
Others							
Period 7/1/89 - 6/30/90:							
Average Monthly Benefit	$ 627	$ 480	$ 830	$ 1,325	$ 1,856	$ 2,168	$ 3,352
Number of Active Retirants	46	181	124	66	30	4	6
Period 7/1/90 - 6/30/91:							
Average Monthly Benefit	$ 708	$ 561	$ 928	$ 1,379	$ 1,962	$ 2,781	$ 3,235
Number of Active Retirants	40	267	282	154	76	42	15
Period 7/1/91 - 6/30/92:							
Average Monthly Benefit	$ 584	$498	$ 842	$ 1,240	$ 1,941	$ 2,350	$ 2,758
Number of Active Retirants	19	161	138	71	32	8	6
Period 7/1/92 - 6/30/93:							
Average Monthly Benefit*	$ 558	$ 449	$ 866	$1,343	$2,029	$2,534	$3,223
Number of Active Retirants	23	158	143	83	36	13	8
Period 7/1/93 - 6/30/94:							
Average Monthly Benefit*	$ 503	$ 449	$ 863	$1,412	$1,886	$2,710	$3,131
Number of Active Retirants	17	149	169	136	60	17	19
Police/Fire							
Period 7/1/89 - 6/30/90:							
Average Monthly Benefit	$ 1,176	$ 490	$ 805	$ 1,853	$ 2,387	$ -	$ -
Number of Active Retirants	4	5	8	12	9	-	-
Period 7/1/90 - 6/30/91:							
Average Monthly Benefit	$ 1,522	$ 401	$ 1,047	$ 1,961	$ 2,588	$ 3,374	$ -
Number of Active Retirants	7	6	18	29	34	9	-
Period 7/1/91 - 6/30/92:							
Average Monthly Benefit	$ 1,552	$ 955	$ 1,040	$ 1,427	$ 2,499	$ 3,511	$ -
Number of Active Retirants	4	3	8	8	11	1	-
Period 7/1/92 - 6/30/93:							
Average Monthly Benefit*	$ 1,047	$ 546	$ 1,078	$ 1,648	$ 2,700	$ 3,704	$ 3,231
Number of Active Retirants	3	2	7	6	17	3	1
Period 7/1/93 - 6/30/94:							
Average Monthly Benefit*	$ 417	$ 748	$ 1,054	$ 1,532	$ 2,748	$ 3,825	$ -
Number of Active Retirants	1	7	9	13	32	9	-

*"Average Monthly Benefit" included post-retirement pension adjustments and cost-of-living increases.

Public Employees' Retirement System
Retiree Average Age and Benefits

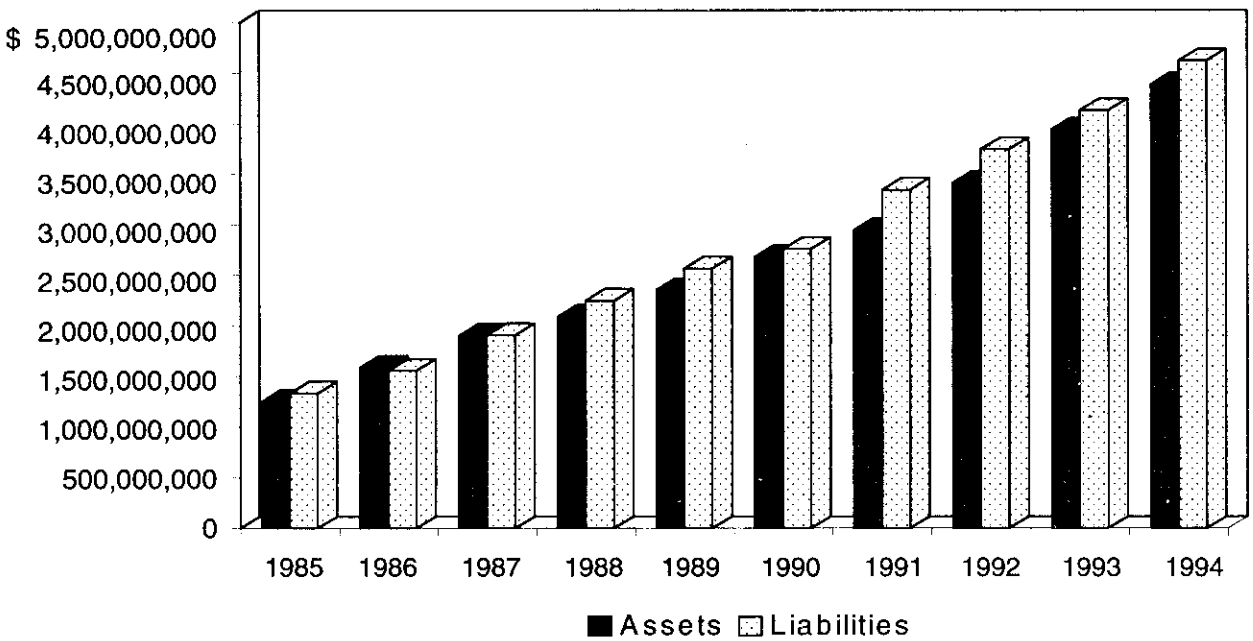
Year	# Retirees	Average Age	Average Monthly Benefit
1985	4,317	63.82	$ 836
1986	4,657	64.05	839
1987	5,651	60.39	925
1988	6,702	62.82	945
1989	6,967	63.28	957
1990	7,365	63.62	968
1991	8,358	63.15	1,038
1992	8,704	63.58	1,075
1993	9,103	63.98	1,047
1994	9,643	64.22	1,072

Public Employees' Retirement System
Schedule of Benefit Expenses by Type
(000s Omitted)

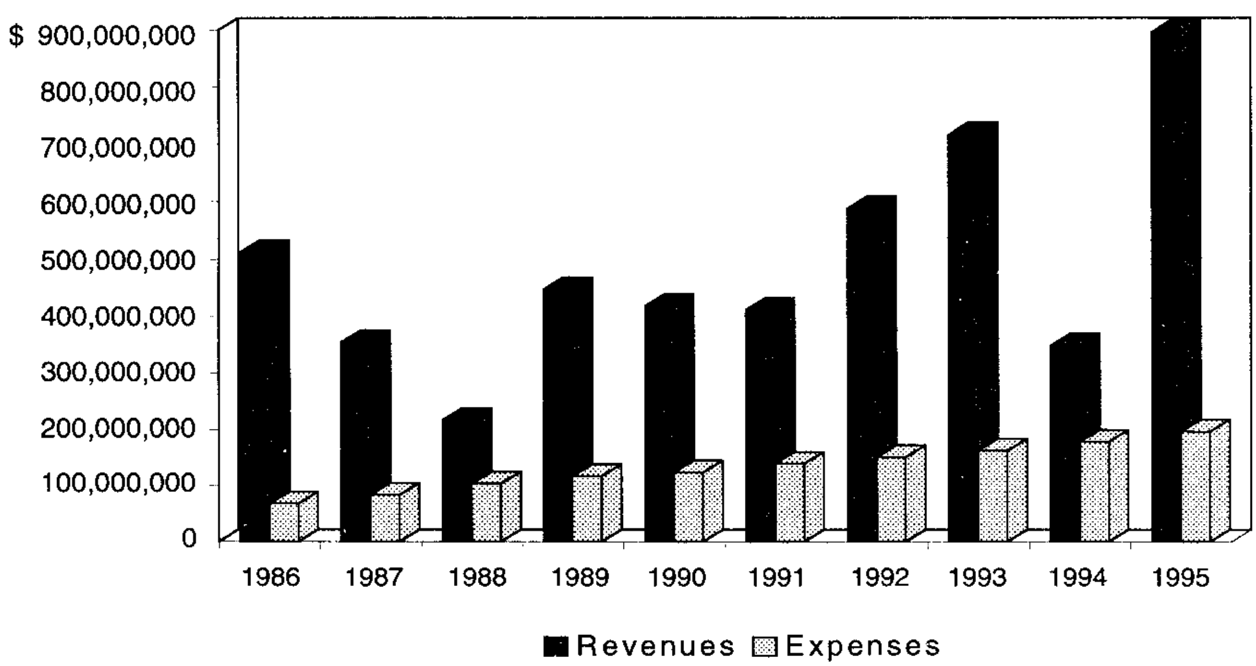
Fiscal Year	Service	Disability	Survivor	Lump Sum Death	COLA[1]	PRPA[2]	Medical	Total
1986	$33,804	1,068	1,442	312	2,957	6,333	9,411	55,327
1987	42,858	1,355	1,567	365	3,706	7,622	10,256	67,729
1988	57,478	1,992	1,835	319	4,895	7,445	11,376	85,340
1989	63,570	2,259	2,152	404	5,381	8,623	18,065	100,454
1990	64,330	2,819	2,461	434	5,394	9,863	22,142	107,443
1991	76,418	2,837	2,827	417	6,373	10,779	23,332	122,983
1992	81,530	3,212	3,165	473	6,685	13,295	23,120	131,480
1993	84,676	3,735	3,692	713	6,820	14,424	27,879	141,939
1994	90,388	3,895	3,987	681	7,099	15,817	36,046	157,913
1995	97,730	4,076	4,520	911	7,597	16,800	40,687	172,321

(1) Cost of Living in Alaska
(2) Post Retirement Pension Adjustment

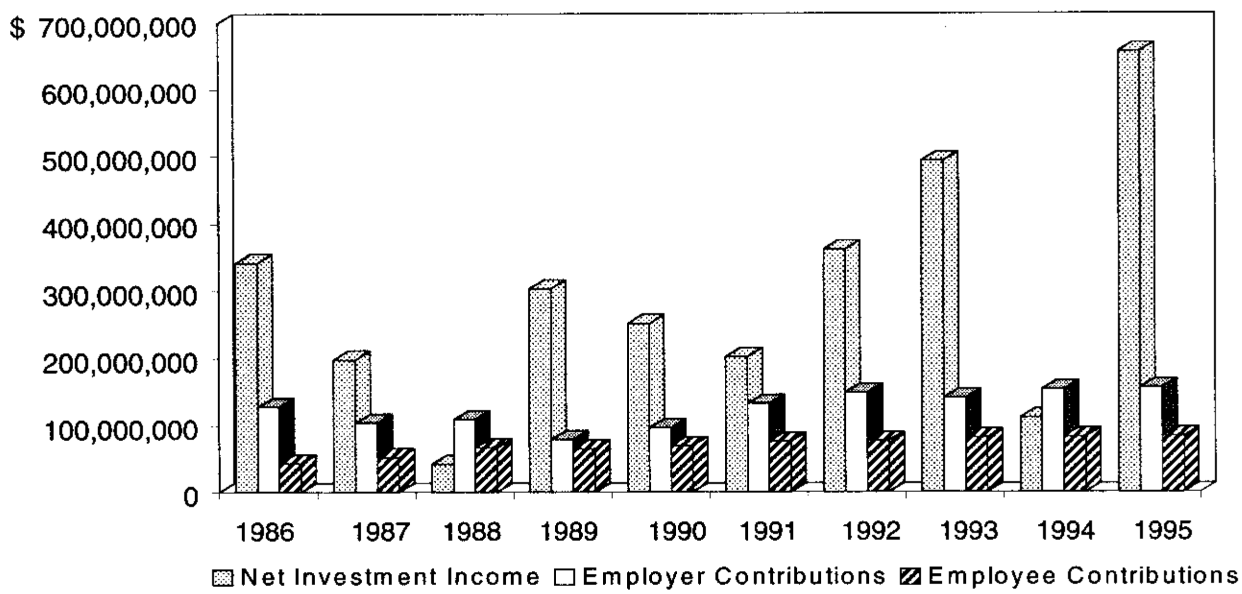
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
10-YEAR COMPARISON OF VALUATION ASSETS AND ACCRUED LIABILITIES



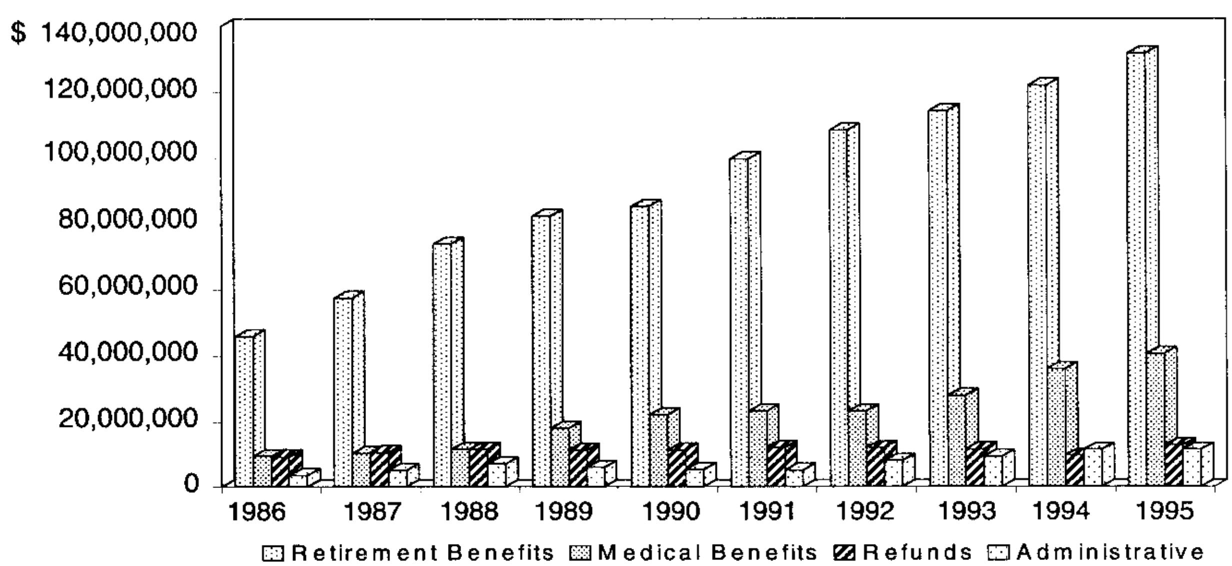
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
10-YEAR COMPARISON OF REVENUES AND EXPENSES



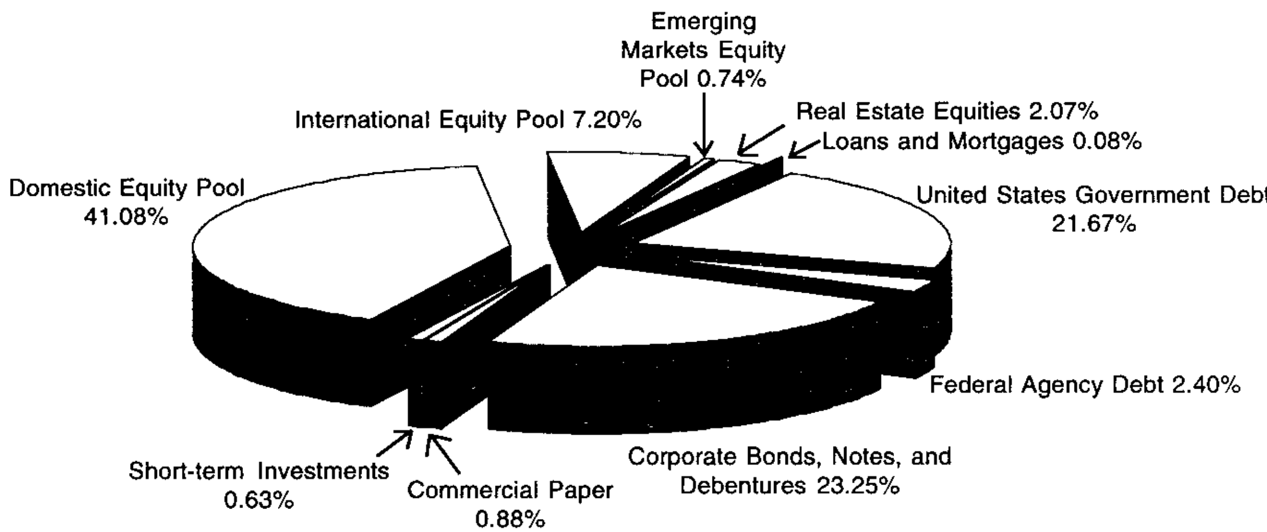
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
10-YEAR BREAKDOWN OF REVENUES BY SOURCE



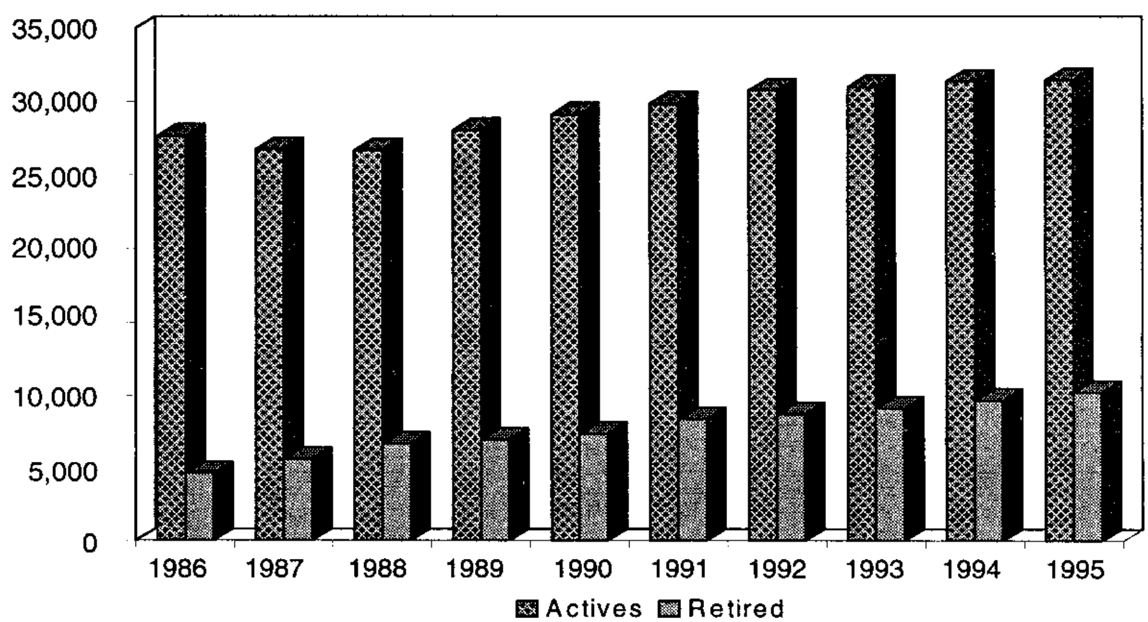
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
10-YEAR BREAKDOWN OF EXPENSES BY TYPE



PUBLIC EMPLOYEES' RETIREMENT SYSTEM
INVESTMENT PORTFOLIO
Year Ended June 30, 1995



PUBLIC EMPLOYEES' RETIREMENT SYSTEM
10-YEAR COMPARISON OF ACTIVES AND RETIREES



PERS PARTICIPATING EMPLOYERS AND CONTRIBUTION RATES FISCAL YEAR 1995

Employer	Contribution Percentage
Akutan, City of	11.21
Alaska, State of	
Policemen, Firemen	16.80
All Other Employees	15.17
Alaska Gateway School District	9.31
Alaska Housing Finance Corporation	10.73
Alaska Municipal League	20.00
Alaska, University of	10.90
Alaska Geophysical Institute, University of	10.90
Aleutian Housing Authority	15.06
Aleutian Region School District	0.00
Aleutians East Borough	10.62
Aleutians East Borough School District	13.41
Aleutians West Coastal Resource Service Area	6.84
Allakaket, City of	10.40
Anchorage, Municipality of	
Policeman, Firemen	10.90
All Other Employees	12.50
Anchorage Parking Authority	7.55
Anchorage School District	14.68
Anchorage Telephone Utility	10.90
Annette Island School District	9.89
Atka, City of	13.70
Barrow, City of	4.77
Bartlett Memorial Hospital	11.06
Bering Straits Coastal Resource Service Area	2.82
Bering Straits Regional Housing Authority	10.90
Bering Strait School District	2.89
Bethel, City of	2.83
Bristol Bay Borough	12.46
Bristol Bay Borough School District	15.20
Bristol Bay Coastal Resource Service Area	14.22
Bristol Bay Housing Authority	0.00
Chatham School District	11.23
Chugach Regional School District	4.71
Cook Inlet Housing Authority	19.05
Copper River Basin Regional Housing Authority	12.41
Copper River School District	6.24
Cordova, City of	12.75
Cordova Community Hospital	9.68
Cordova Public Schools	13.59
Craig, City of	5.23
Craig School District	9.49

PERS PARTICIPATING EMPLOYERS AND CONTRIBUTION RATES
FISCAL YEAR 1995

Employer (continued)	Contribution Percentage
Delta/Greely School District	8.64
Denali Borough	15.18
Denali Borough School District	6.93
Dillingham, City of	4.17
Dillingham City School District	13.54
Elim, City of	9.39
Fairbanks, City of	24.53
Fairbanks Municipal Utility System	24.53
Fairbanks North Star Borough	0.00
Fairbanks North Star Borough School District	11.86
Fort Yukon, City of	0.00
Galena, City of	0.00
Galena City Schools	0.00
Grayling, City of	8.52
Haines Borough	10.96
Haines Borough School District	8.23
Haines, City of	8.29
Homer, City of	8.68
Hoonah, City of	0.00
Hoonah City Schools	33.37
Huslia, City of	10.10
Hydaburg City Schools	10.74
Iditarod Area School District	0.00
Interior Regional Housing Authority	14.68
Juneau Borough School District	12.24
Juneau, City and Borough of	12.50
Kachemak, City of	7.89
Kake City School District	10.90
Kaltag, City of	14.20
Kashunamuit School District	8.55
Kenai, City of	4.77
Kenai Peninsula Borough	12.46
Kenai Peninsula Borough School District	13.81
Ketchikan, City of	23.25
Ketchikan Gateway Borough	11.90
Ketchikan Gateway Borough School District	16.18
King Cove, City of	1.77

PERS PARTICIPATING EMPLOYERS AND CONTRIBUTION RATES FISCAL YEAR 1995

Employer (continued)	Contribution Percentage
Kivalina, City of	4.13
Klawock, City of	18.89
Klawock City School District	9.25
Kodiak, City of	11.62
Kodiak Island Borough	11.22
Kodiak Island Borough School District	12.15
Kotzebue, City of	0.00
Koyuk, City of	18.25
Kuspuk School District	7.95
Lake and Peninsula Borough	13.44
Lake and Peninsula School District	6.46
Lower Kalskag, City of	15.18
Lower Kuskokwim School District	1.56
Lower Yukon School District	6.02
Marshall, City of	10.90
Matanuska-Susitna Borough	11.20
Matanuska-Susitna Borough School District	11.20
Mekoryuk, City of	15.18
Nenana, City of	0.00
Nenana City Public Schools	0.00
Nome, City of	4.05
Nome Public Utilities	0.00
Nome City Public Schools	0.00
Noorvik, City of	2.06
North Pacific Fisheries Management Council	1.99
North Pole, City of	5.00
North Slope Borough	6.60
North Slope Borough School District	8.54
Northwest Arctic Borough	6.04
Northwest Arctic Borough School District	0.00
Nuiqsut, City of	14.66
Old Harbor, City of	17.80
Palmer, City of	12.32
Pelican, City of	2.41
Pelican Schools	13.61
Petersburg, City of	16.54
Petersburg General Hospital	16.54
Petersburg Public Schools	16.54
Pribilof Regional School District	6.59

PERS PARTICIPATING EMPLOYERS AND CONTRIBUTION RATES FISCAL YEAR 1995

Employer (continued)	Contribution Percentage
Quinhagak, City of	10.90
Ruby, City of	0.00
Saint George, City of	37.16
Saint Mary's, City of	0.02
Saint Mary's School District	5.05
Saint Paul, City of	1.21
Sand Point, City of	11.91
Saxman, City of	30.96
Selawik City Council	0.00
Seward, City of	9.52
Seward General Hospital	26.95
Shishmaref, City of	9.69
Sitka, City and Borough of	16.68
Sitka Community Hospital	11.05
Sitka Borough School District	14.29
Skagway, City of	0.81
Skagway City School District	26.95
Soldotna, City of	14.53
Southeast Islands School District	12.97
Southeast Regional Resource Center	8.02
Southwest Region Schools	0.98
Special Education Service Agency	4.21
Tanana, City of	0.00
Tanana City School District	9.65
Thorne Bay, City of	4.64
Unalakleet, City of	9.61
Unalaska, City of	3.99
Unalaska City School District	6.69
Valdez, City of	9.59
Valdez City Schools	9.98
Wasilla, City of	11.63
Whittier, City of	2.05
Wrangell, City of	11.25
Wrangell City Schools	11.97
Yakutat, City and Borough of	8.88
Yakutat City School District	10.90
Yukon Flats School District	0.00
Yukon-Koyukuk School District	0.00

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PLAN SUMMARY

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Plan Summary

On January 1, 1961, the Alaska State Legislature established the Public Employees' Retirement System (PERS). Chapter 82, 1986 Session Laws of Alaska, created a two-tier retirement system. Members who were first hired under the PERS before July 1, 1986, are eligible for different benefits than members hired after June 30, 1986. The Commissioner of the Department of Administration is responsible for administering the System. The Public Employees' Retirement Board prescribes policies and regulations and performs other activities necessary to carry out the provisions of the System. The Alaska State Pension Investment Board is responsible for managing and investing PERS funds. The Attorney General represents the system in legal proceedings.

Employers

Currently there are 153 employers participating in the PERS, including the State of Alaska and 152 political subdivisions and public organizations.

Members

Membership is mandatory for all permanent full-time and part-time employees of the State of Alaska and participating political subdivisions and public organizations, unless they are specifically excluded by Alaska Statute or participation agreements. Employees participating in the University of Alaska's Optional Retirement Plan or other retirement plans funded by the State are not covered by the PERS. Elected officials may waive PERS membership.

Credited Service

Permanent employees who work at least 30 hours a week earn full-time credit; part-time employees working between 15 and 30 hours a week earn partial credit based upon the number of hours worked. Members receiving PERS occupational disability benefits continue to earn PERS credit while disabled.

Members may claim other types of service, including military, temporary, Alaska Bureau of Indian Affairs, and pre-1961 service with the State, former Territory or U.S. Government in Alaska. Members may also claim certain elected official, peace officer, correctional officer, and fire fighter service that was not creditable at the time it was performed. Leave without pay occurring after June 13, 1987, while a member is receiving Workers' Compensation may be claimed.

Employer Contributions

Individual contribution rates are established for each employer based upon consolidated and past service rates.

The *consolidated rate* is a uniform rate for all participating employers, which is amortized to include future service liabilities (less the value of members' contributions) for the members' future service.

The *past service rate* is determined separately for each employer to amortize their unfunded past service liability with level payments over 25 years. Funding surpluses are amortized over five years.

Member Contributions

Police and fire members are required to contribute 7.5% of their compensation; all other members contribute 6.75%. Members' contributions are deducted from gross wages before federal income

(Continued)

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Plan Summary

taxes are withheld. Member contributions are required for most types of claimed service. Members may voluntarily contribute up to an additional 5% of their compensation. Members' contributions earn 4.5% interest, compounded semiannually on June 30 and December 31.

Terminated members may receive refunds of their member contribution accounts, which includes their mandatory and voluntary contributions, indebtedness payments, and interest earned. Terminated members' accounts may be attached to satisfy claims under Alaska Statute 09.38.065, federal income tax levies and valid qualified domestic relations orders.

Refunded accounts and the corresponding PERS service may be reinstated upon reemployment in the PERS. Accounts attached to satisfy claims under Alaska Statute 09.38.065 or federal tax levy may be reinstated at any time. Interest accrues on refunds until they are paid in full or the member retires.

Retirement Benefit

The normal benefit is calculated by multiplying the member's average monthly compensation (AMC) times total PERS service times the appropriate percentage multiplier. The AMC is determined by averaging the salaries earned during the three highest, consecutive payroll years. The PERS pays a minimum benefit of $25.00 per month for each year of service when the calculated benefit is less.

The percentage multipliers for all other members are 2% for the first ten years, 2.25% for the next ten years, and 2.5% for all remaining service earned on or after July 1, 1986 (all service before that date is calculated at 2%). The multipliers for police and fire members are 2% for the first ten years and 2.5% for all service over 10 years.

Members are vested with five years of PERS service and are eligible for normal retirement at age 60 and early retirement at age 55. Members hired before July 1, 1986, are eligible for normal retirement at age 55 and early retirement at age 50. Under the conditional service provision, members may retire with less service when they reach retirement age and accumulate the required service. Members may also retire at any age with 20 years of police and fire service or 30 years of all other service.

Members may choose between the normal, early, joint and survivor (50%, 66-2/3% or 75%), and level income options. Actuarial adjustments to benefits are required under all options, except for normal retirement.

Retirement benefits will be actuarially reduced when there is an indebtedness remaining at retirement. However, PERS service used to satisfy the minimum service requirements for retirement must be paid in full.

Reemployment of Retired Member

Retirement benefits are suspended while retired members are reemployed under the PERS. During reemployment, members earn additional PERS service and contributions are withheld from their wages.

Members who retire under the Retirement Incentive Programs (RIPs) who return to employment under the PERS, Teachers' Retirement System (TRS), or the University of Alaska's Optional Retirement Plan will:

(Continued)

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Plan Summary

a. Forfeit the three years of incentive credits that they received.

b. Owe the PERS 110% of the benefits that they received under the RIP, including any costs for health insurance, and excluding amounts that they paid to participate.

c. Be charged 7% interest on amounts owed from the date of reemployment until the indebtedness is paid in full or they retire again. Any balance remaining at retirement will result in an actuarial reduction to the member's future benefits.

Disability Benefit

PERS disability benefits are paid until the member dies, recovers or becomes eligible for normal retirement. When eligible for normal retirement, disability benefits terminate and the member is appointed to normal retirement.

Occupational Disability. There are no age or service requirements to be eligible for occupational disability. Monthly benefits equal 40% of the member's gross monthly compensation on the date of disability. Members on occupational disability continue to earn PERS service until their normal retirement date.

Nonoccupational Disability. Members must be vested to be eligible for nonoccupational disability benefits. Monthly benefits are calculated on the member's average monthly compensation and PERS service at the time of termination due to disability. Members on nonoccupational disability do not continue to earn PERS service.

Death Benefit

Occupational Death. When an active member dies from occupational causes, a monthly survivor's pension may be paid to the spouse. The pension equals 40% of the member's gross monthly compensation on the date of death or disability, if earlier. If there is no spouse, the pension may be paid to the member's dependent children. On the member's normal retirement date, the benefit converts to a normal retirement benefit.

Nonoccupational Death. When a vested member dies from nonoccupational causes, the surviving spouse may elect to receive a monthly 50% joint and survivor benefit or a lump sum benefit. The monthly benefit is calculated on the member's average monthly compensation and PERS service at the time of termination or death.

Upon the death of the member who has less than one year of service, the designated beneficiary receives the member's contribution account, which includes mandatory and voluntary contributions, indebtedness payments, and interest earned. The beneficiary also receives an additional $1,000, plus $100 for each year of PERS service, if the member has more than one year of PERS service.

Death After Retirement. When a retired member dies, the designated beneficiary receives the member's contribution account, less any benefits already paid. If the member selected a survivor option at retirement, the eligible spouse receives a continuing, lifetime monthly benefit.

Post Retirement Pension Adjustment

Post retirement pension adjustments (PRPAs) are granted annually to eligible benefit recipients when the Consumer Price Index (CPI) increases during

(Continued)

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Plan Summary

the preceding calendar year. PRPAs are calculated by multiplying the recipient's base benefit, including past PRPAs, times:

a. 75% of the CPI increase in the preceding calendar year or 9%, whichever is less, if the recipient is at least age 65 or on PERS disability, or

b. 50% of the CPI increase in the preceding calendar year or 6%, whichever is less, if the recipient is at least age 60, or under age 60 if the recipient has been receiving benefits for at least five years.

Alaska Cost of Living Allowance

Eligible benefit recipients who reside in Alaska receive the Alaska cost of living allowance (COLA), which is equal to 10% of their base benefits or $50, whichever is more. The following benefit recipients are eligible:

a. Members who were first hired under the PERS before July 1, 1986, and their survivors;

b. Members who were first hired under the PERS after June 30, 1986, and their survivors if they are at least age 65; and

c. All disabled members.

ALASKA TEACHERS' RETIREMENT SYSTEM

TEACHERS' RETIREMENT BOARD

Robert Salo, Vice Chair
Term Expires: 1/31/98

Stephanie Winsor
Term Expires: 6/30/96

Dorothy Wells, Chair
Term Expires: 6/30/96

Marjorie Fowler
Term Expires: 1/31/96

Elizabeth Briggs Hertz
Term Expires: 1/31/97

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FINANCIAL SECTION

KPMG Peat Marwick LLP

601 West Fifth Avenue
Suite 700
Anchorage, AK 99501-2258

Independent Auditors' Report

Division of Retirement and Benefits and
Members of the Alaska Teachers' Retirement Board
State of Alaska Teachers' Retirement System:

We have audited the accompanying statements of net assets available for plan benefits of the State of Alaska Teachers' Retirement System (Plan), A Component Unit of the State of Alaska, as of June 30, 1995 and 1994, and the related statements of changes in net assets available for plan benefits for the years then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for plan benefits of the State of Alaska Teachers' Retirement System, A Component Unit of the State of Alaska, as of June 30, 1995 and 1994, and the changes in net assets available for plan benefits for the years then ended in conformity with generally accepted accounting principles.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

September 13, 1995

KPMG Peat Marwick LLP

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Statements of Net Assets Available for Plan Benefits
(000s omitted)

June 30, 1995 and 1994

	1995	1994
Assets:		
Investments, at market value:		
United States Government debt	$ 539,386	487,181
Federal agency debt	49,016	22,856
Corporate bonds, notes and debentures	599,757	516,908
Commercial paper	19,915	69,617
Domestic equity pool	1,151,269	923,925
International equity pool	201,598	209,148
Emerging markets equity pool	20,856	21,255
Real estate equities	59,357	69,397
Total investments	2,641,154	2,320,287
Loans and mortgages, at market value, net of allowance for loan losses of $1,971 in 1995 and $3,401 in 1994	2,649	3,733
Receivables:		
Contributions	9,318	8,732
Accrued interest and dividends	23,431	21,553
Due from State of Alaska General Fund	-	193
Other accounts receivable	-	28
Total receivables	32,749	30,506
Deposits in State of Alaska short-term investment pools	18,926	449
Total assets	2,695,478	2,354,975
Liabilities:		
Accrued expenses	3,485	3,195
Due to State of Alaska General Fund	3,360	-
Commerce settlement liability	182	61
Total liabilities	7,027	3,256
Net assets available for plan benefits	**$ 2,688,451**	**2,351,719**

See accompanying notes to financial statements.

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Statements of Changes in Net Assets Available for Plan Benefits
(000s omitted)

Years ended June 30, 1995 and 1994

	1995	1994
Additions:		
Investment income:		
Net unrealized appreciation (depreciation) in market value of investments:		
Investments measured by quoted market values in an active market	$ 166,338	(119,223)
Investments measured by net realizable value as determined by management or other methods	2,449	(170)
Net unrealized appreciation (depreciation) in market value of investments	168,787	(119,393)
Interest	87,895	83,956
Dividends	39,381	34,270
Net realized gains on sales	72,620	64,314
Total investment income before recoveries on loans and mortgages	368,683	63,147
Net mortgage loan recoveries	526	114
Net investment income	369,209	63,261
Contributions:		
Employers	60,018	60,490
Employees	47,477	47,904
Total contributions	107,495	108,394
Other	(6)	(30)
Total additions	476,698	171,625
Deductions:		
Benefits paid:		
Retirement	111,498	100,767
Medical	18,264	15,725
Total benefits paid	129,762	116,492
Refunds to terminated employees	2,819	2,258
Administrative expenses	7,385	7,659
Total deductions	139,966	126,409
Net increase	336,732	45,216
Net assets available for plan benefits at beginning of year	2,351,719	2,306,503
Net assets available for plan benefits at end of year	**$ 2,688,451**	**2,351,719**

See accompanying notes to financial statements.

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Notes to Financial Statements
(000s omitted)

June 30, 1995 and 1994

(1) Description

The following brief description of the State of Alaska Teachers' Retirement System (Plan), A Component Unit of the State of Alaska, is provided for general information purposes only. Participants should refer to the Plan agreement for more complete information.

General

The Plan is the administrator of a defined benefit, cost-sharing, multiple-employer public employee retirement system established and administered by the State of Alaska (State) to provide pension benefits for teachers and other eligible participants. Benefit and contribution provisions are established by State law and may be amended only by the State Legislature. The Plan is considered a component unit of the State financial reporting entity and is included in the State's financial reports as a pension trust fund.

At June 30, 1995, the number of participating local government employers was:

School districts	54
Other	7
Total employers	61

Inclusion in the Plan is a condition of employment for permanent school district, University of Alaska and State Department of Education employees who meet the eligibility requirements for participation in the Plan. At June 30, 1994, Plan membership consisted of:

Retirees and beneficiaries currently receiving benefits and terminated employees entitled to future benefits	5,064
Current employees:	
Vested	5,562
Nonvested	3,927
	9,489
	14,553

Pension Benefits

Vested employees hired prior to July 1, 1990 are entitled to pension benefits beginning at normal retirement age, fifty-five, or early retirement age, fifty. For employees hired after June 30, 1990, the normal and early retirement ages are sixty and fifty-five, respectively. Employees may also retire at any age and receive a normal benefit when they accumulate the required credited service.

The normal annual pension benefit is based on years of service and the average base salary. The average base salary is based upon the employee's three highest years salaries.

(Continued)

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Notes to Financial Statements
(000s omitted)

The benefit related to all years of credited service prior to July 1, 1990 and for years of service through a total of twenty years is equal to 2% of the employee's average base salary. The benefit for each year over twenty years of service subsequent to June 30, 1990 is equal to 2-1/2% of the employee's base salary.

Minimum benefits for employees eligible for retirement are $25 per month for each year of credited service.

Married members must receive their benefits in the form of a joint and survivor annuity unless their spouses consent to another form of benefit, another person is eligible for benefits under a qualified domestic relations order or benefits are payable under the 1% supplemental contributions provision.

When pension benefits begin, major medical benefits are provided without cost to (1) all employees first hired before July 1, 1990 and (2) employees who are disabled or age sixty-five or older, regardless of their initial hire dates. Employees first hired after June 30, 1990 may receive major medical benefits prior to age sixty-five by paying premiums.

Death Benefits

When benefits are payable under the 1% supplemental contribution provision, the employee's spouse is eligible for a spouse pension if there is/are no dependent child(ren). If there is/are dependent child(ren), a survivor's allowance may be payable to the employee's spouse, or guardian of the dependent child(ren). The amount of the pension or allowance is determined by the employee's base salary. Employees first hired after June 30, 1982 are not eligible to participate in this provision.

If an active employee dies from occupational causes, the spouse may receive a monthly pension from the Plan. When death is due to occupational causes and there is no surviving spouse, the employee's dependent child(ren) may receive a monthly pension until they are no longer dependents. The amount of the occupational death pension changes on the date the employee's normal retirement would have occurred if the employee had lived. The new benefit is based on the employee's average base salary at the time of death and the credited service that would have accrued had the employee lived and continued to work until normal retirement. If benefits are payable under the 1% supplemental contribution provision, benefits are not payable under this provision. If the death was from nonoccupational causes, and the employee was vested, the spouse may receive a monthly survivor benefit based on a 50% joint and survivor option. If the employee is not married or vested, a lump sum death benefit is payable to the named beneficiary(s).

Disability Benefits

If an employee has been in membership service for five or more years for which contributions have been made, is not eligible for normal retirement benefits and becomes permanently disabled, the employee is entitled to a monthly benefit. The annual disability benefit is equal to 50% of the base salary at time of the disability plus an additional 10% of his/her base salary for each dependent child up to a maximum of four children. At normal retirement age, a disabled employee receives normal retirement benefits.

(Continued)

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Notes to Financial Statements
(000s omitted)

Effect of Plan Termination

Should the Plan terminate at some future time, its net assets generally will not be available on a pro rata basis to provide participants' benefits. Whether a particular participant's accumulated Plan benefits will be paid depends on the priority of those benefits at that time. Some benefits may be fully or partially provided for by the then existing assets while other benefits may not be provided for at all.

(2) Summary of Significant Accounting Policies

Basis of Accounting

The Plan's financial statements are prepared using the accrual basis of accounting.

Valuation of Investments

Security transactions and any resulting gains or losses are accounted for on a trade date (ownership) basis.

Investments, other than real estate equities and loans and mortgages, are carried at market value to reflect their asset values. Market value is determined at the end of each month by the custodial agent. The agent's determination of market values involves, among other things, using pricing services or prices quoted by independent brokers.

Real estate equities are stated at estimated market value as determined by the independent management of the investment accounts. These investments do not have a readily available market and generally represent long-term investments.

At June 30, 1995, loans and mortgages are stated at estimated market value as determined by management.

Historically, management of the loans and mortgages portfolio has provided an estimated allowance for loan losses to provide for potential credit losses. Factors considered by management in developing the allowance for loan losses include delinquency levels, historical charge-offs and the aging of the portfolio.

Loans and mortgages include approximately $1,327 and $1,753 for 1995 and 1994, respectively, of other real estate owned. Other real estate owned represents properties on which the Plan has foreclosed and is holding with the intent to resell.

Contributions Receivable

Contributions from employees and employers for service through June 30 are accrued. These contributions are considered fully collectible and, accordingly, no allowance for uncollectible receivables is reflected in the financial statements.

Reclassifications

Certain amounts have been reclassified to conform with the current year presentation.

(3) Investments and Deposits

To provide an indication of the level of credit risk assumed by the Plan at June 30, 1995, the Plan's investments are categorized as follows:

(Continued)

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Notes to Financial Statements
(000s omitted)

Investments

Category 1 - Insured or registered for which the securities are held by the State or its custodian in the Plan's name.

Category 2 - Uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the Plan's name.

Category 3 - Uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent but not in the Plan's name:

	Category 1	Category 2	Category 3	Market value and carrying value
Investments categorized:				
United States Government debt	$ 539,386	-	-	539,386
Federal agency debt	49,016	-	-	49,016
Corporate bonds, notes and debentures	599,757	-	-	599,757
Commercial paper	19,915	-	-	19,915
Total investments categorized	1,208,074	-	-	1,208,074
Investments which cannot be categorized as they are an undivided interest in a State of Alaska investment pool:				
Domestic equity pool				1,151,269
International equity pool				201,598
Emerging markets equity pool				20,856
				1,373,723
Other investments which cannot be categorized - real estate equities				59,357
Total investments not categorized				1,433,080
Total investments				**$ 2,641,154**

(Continued)

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Notes to Financial Statements
(000s omitted)

Although pooled investments represent the Plan's share of ownership in the pool, rather than ownership of specific securities, all of the underlying securities in the pool in which the Plan participates are considered to be Category 1 and are held by the custodian in the State's name.

Deposits

Deposits in the State of Alaska short-term investment pools, $18,926 at June 30, 1995, cannot be categorized as the Plan has an undivided interest in these pools. The assets of the short-term investment pools consist of cash and repurchase agreements. All assets of the short-term investment pools are insured or collateralized with securities held by the State or its custodian in the State's name.

During 1995 and 1994, the Plan's investments (including investments bought, sold, as well as held during the year) appreciated (depreciated) in value as follows:

	1995	1994
Investments whose fair values have been measured by quoted prices in an active market:		
United States Government debt	$ 24,308	(51,720)
Federal agency debt	810	(1,637)
Corporate bonds, notes and debentures	27,321	(50,638)
Commercial paper	23	(28)
Domestic equity pool	117,783	(32,969)
International equity pool	(3,061)	17,285
Emerging markets equity pool	(846)	484
Investments whose fair values have been measured by management estimates or other methods:		
Real estate equities	2,449	(170)
Loans and mortgages	526	114
	$ 169,313	**(119,279)**

(Continued)

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Notes to Financial Statements
(000s omitted)

The cost, market and carrying values of the Plan's investments at June 30, 1995 and 1994 are as follows:

	Cost	Market	Carrying value
1995:			
United States Government debt	$ 478,527	539,386	539,386
Federal agency debt	47,742	49,016	49,016
Corporate bonds, notes and debentures	568,223	599,757	599,757
Commercial paper	19,915	19,915	19,915
Domestic equity pool	968,759	1,151,269	1,151,269
International equity pool	184,384	201,598	201,598
Emerging markets equity pool	21,147	20,856	20,856
Real estate equities	81,013	59,357	59,357
Loans and mortgages, net of allowance for loan losses of $1,971	2,649	2,649	2,649
	$ 2,372,359	**2,643,803**	**2,643,803**
1994:			
United States Government debt	$ 450,631	487,181	487,181
Federal agency debt	22,392	22,856	22,856
Corporate bonds, notes and debentures	512,695	516,908	516,908
Commercial paper	69,640	69,617	69,617
Domestic equity pool	859,198	923,925	923,925
International equity pool	188,873	209,148	209,148
Emergency markets equity pool	20,771	21,255	21,255
Real estate equities	93,501	69,397	69,397
Loans and mortgages, net of allowance for loan losses of $3,401	3,733	3,733	3,733
	$ 2,221,434	**2,324,020**	**2,324,020**

(Continued)

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Notes to Financial Statements
(000s omitted)

The Alaska State Pension Investment Board has statutory oversight of the Plan's investments and the authority to invest the Plan's monies. Prior to July 1, 1993, the Commissioner of Revenue had the statutory authority to invest the monies of the Plan. Actual investing is performed by the investment officers of the Division of Treasury of the Department of Revenue. Alaska Statute provides for the investment in United States treasury or agency securities; corporate debt securities; preferred and common stock; commercial paper; securities of foreign governments, agencies and corporations; foreign time deposits; gold bullion; futures contracts for the purpose of hedging; real estate investment trusts; deposits within Alaska savings and loans and mutual savings banks; deposits with state and national banks in Alaska; guaranteed loans; notes collateralized by mortgages; certificates of deposit and banker's acceptances.

(4) Pooled Investments

Short-Term Investment Pools

The Plan, along with other State funds, participates in two internally managed short-term fixed income pools. Participants in the qualified short-term fixed income pool are qualified retirement plans whereas participants in the nonqualified fixed income pool are retirement funds as well as other State funds. Each participant owns shares in the pools, the number of which fluctuates daily with contributions, withdrawals and income. A share price of $1 is maintained, giving each participant one share for every dollar invested in the short-term fixed income pools. The assets of the short-term fixed income pools, comprised of commercial paper, corporate bonds, U.S. Treasuries, U.S. Government sponsored securities, repurchase agreements and cash, are reported as deposits in State of Alaska short-term investment pools on the statements of net assets and are presented at market. At June 30, 1995 and 1994, the Fund's investment in the short-term fixed income pools is comprised of the following:

	1995		1994	
	Ownership percentage	Market value of shares	Ownership percentage	Market value of shares
Nonqualified	1.13%	$ 9,203	-%	-
Qualified	25.51%	9,723	14.62%	449
Total short-term fixed income pools		$ 18,926		449

(Continued)

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Notes to Financial Statements
(000s omitted)

Domestic Equity Pool

The investment activity of all domestic marketable securities was consolidated with the domestic marketable securities of three other State retirement funds to form a domestic equity pool. The activity and the June 30, 1995 and 1994 balances of this domestic equity pool are accounted for on a unit-accounting basis. All income and realized and unrealized gains and losses are allocated monthly to each participant on a pro rata ownership basis. At June 30, 1995 and 1994, the Plan's investment in the domestic equity pool is comprised of the following:

	1995	1994
Marketable securities, at market	$1, 025,903	875,185
Interest and dividends receivable	3,004	3,310
Cash and cash equivalents	122,362	45,430
	$1,151,269	**923,925**

International Equity Pool

The Plan, along with three other State retirement systems, has formed an international equity pool comprised of investments in various types of international equity securities. The majority of the international equity pool is comprised of common stock with available cash balances invested in short-term debt instruments. All accrued income, realized gains and losses, and income received are allocated monthly to the four participating funds on a pro rata ownership basis.

The international equity pool at June 30, 1995 and 1994 is comprised of the following:

	1995	1994
Marketable securities, at market	$ 193,566	199,682
Interest and dividends receivable	-	665
Cash and cash equivalents	8,032	8,801
	$ 201,598	**209,148**

Emerging Markets Equity Pool

The Plan, along with another State retirement system, has formed an emerging markets equity pool, with each retirement system owning shares of the pool. The pool participates in two externally managed commingled investment funds. The commingled funds, comprised of various institutional investors, invest in the equity markets of developing countries. All accrued income, realized gains and losses and income received are allocated monthly to the four participating funds on a pro rate ownership basis. At June 30, 1995 and 1994, the Plan's ownership in the pool was $20,856 and $21,255, respectively.

(5) Funding Status and Progress

The amount shown below as "pension benefit obligation," which is the actuarial present value of credited projected benefits, is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases, estimated to be payable

(Continued)

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Notes to Financial Statements
(000s omitted)

in the future as a result of employee service to date. This measure is intended to help users assess the Plan's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among plans. The measure is independent of the actuarial funding method used to determine contributions to the Plan, discussed in note 7 below.

The pension benefit obligation is determined by William M. Mercer, Incorporated and is the amount that results from applying actuarial assumptions to adjust the accumulated benefits to reflect the time value of money (through discounts for interest) and the probability of payment (by means of decrements such as for death, disability, withdrawal, or retirement) between the valuation date and the expected date of payment. The significant actuarial assumptions used in the valuations as of June 30, 1994 are as follows:

a. Actuarial cost method - projected unit credit, unfunded accrued benefit liability amortized over a rolling twenty-five years, funding surplus amortized over five years.

b. Mortality basis - 1984 Unisex Pension Mortality Table set forward one year for male members and set backward four years for female members.

c. Retirement age - retirement rates based on the 1986-1990 actual experience.

d. Cost of living allowance (domicile in Alaska) - 66% of those receiving benefits will be eligible to receive the cost of living allowance.

e. Contribution refunds - 100% of those employees terminating after age thirty-five who are vested will leave their contributions in the fund and thereby retain their deferred vested benefit. All others who terminate are assumed to have their contributions refunded.

f. Turnover and disability assumptions are based upon the 1986-1990 actual experience of the Plan.

The foregoing actuarial assumptions are based on the presumption that the Plan will continue. Were the Plan to terminate, different actuarial assumptions and other factors might be applicable in determining the actuarial present value of accumulated benefits.

Changes in Actuarial Assumptions

There were no significant changes in the demographic actuarial assumptions or actuarial methods used in the determination of Plan liabilities this year. However, there was a change in the economic actuarial assumptions and asset valuation method. The assumptions and methods, when applied in combination, fairly represent past and anticipated future experience of the Plan.

The total inflation assumption was changed from 5% to 4% annually. This in turn affected the economic assumptions, including investment return, salary scale and health cost trend. The following table shows the prior and new economic assumptions:

(Continued)

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Notes to Financial Statements
(000s omitted)

	Prior assumption	New assumption June 30, 1994
Inflation	5.00%	4.00%
Investment return	9.00%	8.00%
Salary scale:		
Inflation	5.00%	4.00%
Productivity	.50%	.50%
Merit (first five years)	1.00%	1.00%
Health cost trend:		
FY95	9.50%	9.50%
FY96	8.50%	8.50%
FY97	7.50%	7.50%
FY98	7.50%	6.50%
FY99 and later	7.50%	5.50%

The method of calculating valuation assets was changed. The new asset valuation method smooths the difference between expected investment return and actual return during a given year. The method spreads the results over five years by recognizing 20% of the investment gain or loss in each of the current and preceding four years.

The effect of the changes in assumptions and asset valuation was to increase the actuarial present value of accumulated Plan benefits by $48,457 and the unfunded pension obligation by $54,882.

At June 30, 1994, the unfunded pension benefit obligation was $409,690 as follows:

Net assets available for benefits as of June 30, 1994, at market	$ 2,351,719
Pension benefit obligation:	
Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits	1,419,506
Current employees:	
Accumulated employee contributions including allocated investment income	398,990
Employer-financed, vested	870,309
Employer-financed, nonvested	72,604
Total pension benefit obligation as of June 30, 1994	2,761,409
Unfunded pension benefit obligation as of June 30, 1994	$ 409,690

(6) Actuarial Present Value of Accumulated Plan Benefits

The actuarial present value of accumulated Plan benefits was determined by William M. Mercer, Incorporated using the unit credit cost method and the following assumptions:

(Continued)

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Notes to Financial Statements
(000s omitted)

a. Future salary was not considered.

b. Future service was considered only to the extent that it would permit active Plan participants to become eligible for benefits attributable to service rendered prior to the date of determination.

c. Assumptions used for mortality, withdrawal, retirement ages, disability and investment return are described in note 5 to these financial statements.

At June 30, 1994, the actuarial present value of accumulated Plan benefits was $2,481,459 as follows:

Retired participants and beneficiaries of deceased participants	$ 1,240,360
Terminated participants with deferred benefits	179,146
Active participants - vested	1,007,778
Active participants - nonvested	54,175
Actuarial present value of accumulated Plan benefits as of June 30, 1994	**$ 2,481,459**

The change in the actuarial present value of accumulated Plan benefits at June 30, 1994 follows:

Actuarial present value of accumulated Plan benefits as of June 30, 1993	$ 2,166,158
Increase (decrease) attributable to:	
Additional benefits accumulated, including actuarial experience	195,984
Change due to decrease in the discount period	189,610
Estimated benefits paid to participants	(118,750)
Changes in assumptions	48,457
Actuarial present value of accumulated Plan benefits as of June 30, 1994	**$ 2,481,459**

(7) Contributions

Employee Contributions

Prior to January 1, 1991, employees contributed 7% of their base salary as required by statute. Effective January 1, 1991, employees contribute 8.65% of their base salary as required by statute. The employee contributions are deducted before federal tax is withheld. Eligible employees contribute an additional 1% of their salary under the supplemental contribution provision. Contributions are collected by employers and remitted to the Plan and may be voluntarily or, under certain circumstances, involuntarily refunded to

(Continued)

STATE OF ALASKA TEACHERS' RETIREMENT SYSTEM (A Component Unit of the State of Alaska)

Notes to Financial Statements (000s omitted)

the employee or a garnishing agency sixty days after termination of employment. Employee contributions earn interest at the rate of 4.5% per annum, compounded annually.

Employer Contributions

The Plan's funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate sufficient assets to pay benefits when due. Employer contribution rates are level percentages of payroll and are determined using the projected unit credit actuarial funding method. The Plan uses the level dollar method to amortize the unfunded liability over a rolling twenty-five year period. Funding surpluses are amortized over five years.

Contributions made in accordance with actuarially determined contribution requirements determined through actuarial valuations consist of the following:

	1995		1994	
	Contributions	**As a percentage of covered payroll**	**Contributions**	**As a percentage of covered payroll**
Employer	$ 60,018	12.08%	$ 60,490	11.70%
Employee	47,477	9.55	47,904	9.26
	$ 107,495	**21.63%**	**$ 108,394**	**20.96%**
Normal cost	68,958	13.88	62,923	12.17
Amortization of unfunded actuarial accrued liability	38,537	7.75	45,471	8.79
	$ 107,495	**21.63%**	**$ 108,394**	**20.96%**

Unaudited covered payroll for 1995 and 1994 is $496,945 and $517,068, respectively.

Actuarial valuations for 1995 and 1994 were performed as of June 30, 1994 and 1993, respectively.

(Continued)

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Notes to Financial Statements

(000s omitted)

Significant actuarial assumptions used to compute contribution requirements are the same as those used to compute the standardized measure of the pension benefit obligation discussed in note 5.

(8) Contingent Liability

The State is party to litigation involving issues surrounding the payment of Plan Medicare premiums and Plan cost-of-living adjustments. While the State has prevailed on summary judgment regarding most of the issues, the plaintiffs were granted summary judgment with respect to their complaint that the appropriate authority had not made the decisions regarding discretionary cost-of-living increases granted for the period 1990 to 1993. The State believes that the outcome of this decision will not have a material impact on the Plan's financial statements.

(9) Historical Trend Information

Historical trend information for 1985 through 1995 designed to provide information about the Plan's progress made in accumulating sufficient assets to pay benefits when due is presented in the accompanying supplemental schedules of analysis of funding progress and revenues by source and expense by type.

Schedule 1

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Required Supplementary Information
Analysis of Funding Progress
(000s omitted)

Pension benefit obligation year ended June 30	Net assets available for Plan benefits	Pension benefit obligation	Percentage funded	Unfunded (assets in excess of) pension benefit obligation	Annual covered payroll (unaudited)	Unfunded (assets in excess of) pension benefit obligation as a percentage of covered payroll
1985	$ 866,333	$ 1,042,551	83.1%	$ 176,218	$ 358,110	49.2%
1986	1,141,650	1,115,773	102.3	(25,877)	392,136	(6.6)
1987	1,303,464	1,210,909	107.6	(92,555)	348,606	(26.6)
1988	1,356,575	1,347,859	100.6	8,716	361,310	2.4
1989	1,545,877	1,557,643	99.2	11,766	431,445	2.7
1990	1,706,346	1,895,030	90.0	188,684	449,838	41.9
1991	1,824,663	2,075,405	87.9	250,742	422,655	59.3
1992	2,031,938	2,231,746	91.0	199,808	448,186	44.6
1993	2,306,503	2,429,456	94.9	122,953	476,428	25.8
1994	2,351,719	2,761,409	85.2	409,690	517,068	79.2

Analysis of the dollar amounts of net assets available for Plan benefits, pension benefit obligation, and unfunded pension benefit obligation in isolation can be misleading. Expressing the net assets available for Plan benefits as a percentage of the pension benefit obligation provides one indication of the Plan's funding status on a going-concern basis. Analysis of this percentage over time indicates whether the Plan is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the Plan. Trends in unfunded pension benefit obligation and annual covered payroll are both affected by inflation. Expressing the unfunded pension benefit obligation as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids analysis of the Plan's progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage, the stronger the Plan. As described in note 5, several Plan assumptions changed in 1994. The net impact of the changes in assumptions was to increase the unfunded pension obligation by $54,882.

See accompanying notes to required supplementary information.

Schedule 2

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Required Supplementary Information
Revenues by Source and Expense by Type
(000s omitted)

Revenues by source

Year ended June 30	Employee contributions	Employer contributions	Interest, dividends and net realized gains on sales	Unrealized appreciation (depreciation) in market value including provision for losses, recoveries and other	Total	Employer contribution as a percentage of annual covered payroll
1986	$ 32,039	$ 69,276	$119,173	$ 103,643	$ 324,131	17.70%
1987	34,159	58,177	143,692	(15,677)	220,351	16.70
1988	33,104	69,363	100,239	(75,566)	127,140	19.20
1989	31,888	47,348	125,170	65,243	269,649	11.00
1990	35,224	53,670	146,612	12,129	247,635	11.90
1991	40,059	57,982	127,524	(4,675)	220,890	14.10
1992	44,338	57,071	166,132	46,620	314,161	12.40
1993	46,497	58,130	231,513	52,089	388,229	12.20
1994	47,904	60,490	182,540	(119,309)	171,625	11.70
1995	47,477	60,018	199,896	169,307	476,698	12.08

Expense by type

	Retirement benefits	Medical benefits	Refunds to terminated employees	Administrative expenses	Total
1986	$ 38,476	$ 4,424	$ 3,311	$ 2,603	$ 48,814
1987	46,183	4,613	4,239	3,502	58,537
1988	60,939	5,040	3,798	4,252	74,029
1989	65,328	8,073	2,953	3,993	80,347
1990	71,134	9,713	2,896	3,423	87,166
1991	84,443	10,654	3,510	3,966	102,573
1992	88,648	10,111	2,641	5,612	107,012
1993	92,703	12,089	2,448	6,424	113,664
1994	100,767	15,725	2,258	7,659	126,409
1995	111,498	18,264	2,819	7,385	139,966

Contributions, including contributions under the retirement incentive program, were made in accordance with actuarially determined contribution requirements.

See accompanying notes to required supplementary information.

Schedule 3

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Cash Receipts and Disbursements
(000s omitted)

Years ended June 30, 1995 and 1994

	1995	1994
Deposits in State of Alaska short-term investment pools at beginning of year	$ 449	7,867
Add cash receipts:		
Contributions:		
Employer	59,798	60,433
Employee	47,112	47,892
Retirement incentive program - employer	-	429
Investment income from interest and dividends	128,585	119,218
Other	3,726	-
Total cash receipts	239,221	227,972
Less cash disbursements:		
Net investment purchases	81,038	109,625
Benefit payments	127,820	114,888
Refunds	4,520	2,630
Administrative expenses	7,360	6,640
Other	6	1,607
Total cash disbursements	220,744	235,390
Deposits in State of Alaska short-term investment pools at end of year	**$ 18,926**	**449**

See accompanying notes to required supplementary information.

Schedule 4

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Administrative Expenses
(000s omitted)

Years ended June 30, 1995 and 1994

	Division of Retirement and Benefits	Division of Treasury	Totals 1995	Totals 1994
Personal services:				
Wages	$ 748	407	1,155	1,201
Benefits	504	222	726	660
Other	2	1	3	3
Total personal services	1,254	630	1,884	1,864
Travel:				
Transportation	23	28	51	60
Per diem	19	20	39	40
Honorarium	-	5	5	9
Total travel	42	53	95	109
Contractual services:				
Accounting and auditing	15	549*	564	14
Management and consulting	79	4,197	4,276	4,764
Legal	49	5	54	91
Medical specialists	8	-	8	8
Data processing	167	4	171	303
Other professional services	49	-	49	30
Communications	60	4	64	72
Transportation	1	1	2	1
Advertising and printing	23	93	116	115
Repairs and maintenance	7	-	7	8
Rentals/leases	8	4	12	7
Other services	11	3	14	12
Total contractual services	477	4,860	5,337	5,425
Equipment	28	17	45	233
Supplies	20	4	24	28
Total administrative expenses	**$ 1,821**	**5,564**	**7,385**	**7,659**

*In 1994 this amount was included in management and consulting.

See accompanying notes to required supplementary information.

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Notes to Required Supplementary Information

Years ended June 30, 1995, 1994, 1993, 1992, 1991, 1990, 1989, 1988, 1987, 1986 and 1985

All significant accounting policies, benefit provisions and actuarial assumptions are the same for the required supplementary information and the financial statements except as follows:

Effective July 1, 1986, the Plan adopted new actuarial assumptions. Actuarial funding surpluses are amortized over five years rather than twenty-five years. The assumed rate of interest was increased from 8% to 9% per year. The salary scale assumption was lowered to 6.5% per year for the first five years of employment and 5.5% per year thereafter, down from 8% and 7%, respectively. Health care cost inflation was increased to 9% rather than 8%. Turnover and disability assumptions were revised based on actual experience in 1981 through 1985.

Effective July 1, 1990, the health care cost was changed from a flat 9% to the following graduations:

Year	Per annum
1992	12.5%
1993	11.5
1994	10.5
1995	9.5
1996	8.5
1997 and thereafter	7.5

Turnover, retirement and disability assumptions were revised based on actual experience in 1986 through 1990. The mortality tables were set forward one year for male members and set backward four years for female members; previously, the mortality table had been set back one and one half years for all members. The cost of living allowance was increased from 54% to 66% participation.

Effective June 30, 1992, the actuarial value of all assets equals market value; previously, fixed income investments were carried at amortized cost.

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ACTUARIAL SECTION

WILLIAM M.
MERCER
INCORPORATED

March 14, 1995

State of Alaska
Teachers' Retirement Board
Department of Administration
Division of Retirement & Benefits
P.O. Box 110203
Juneau, AK 99811-0203

Dear Members of the Board:

Actuarial Certification

The actuarial valuation required for the State of Alaska Teachers' Retirement System has been prepared as of June 30, 1994 by William M. Mercer, Incorporated. The purposes of the report include:

(1) a review of experience under the Plan for the year ended June 30, 1994;

(2) a determination of the appropriate contribution rate for each employer in the System;

(3) the provision of reporting and disclosure information for financial statements, governmental agencies, and other interested parties.

In preparing this valuation, we have employed generally accepted actuarial methods and assumptions, in conjunction with employee data provided to us by the System's staff and financial information provided by the audited report from KPMG Peat Marwick, to determine a sound value for the System liability. This data has not been audited, but it has been reviewed and found to be consistent, both internally and with prior years' data. The actuarial assumptions are based on the results of experience studies presented to the Board in October 1991 and October 1994.

The contribution requirements are determined as a percentage of payroll, and reflect the cost of benefits accruing in FY95 and a 25-year rolling amortization of the unfunded accrued liability. The amortization period is set by the Board. Contribution levels are recommended by the Actuary and adopted by the Board each year. The ratio of assets to liabilities decreased from 93.1% to 89.6% during the year, primarily due to a change in economic actuarial assumptions. Over the years, progress has been made toward achieving the funding objectives of the System.

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600 University Street
Seattle WA 98101 3137

206 292 7000

A Marsh & McLennan Company

WILLIAM M.
MERCER
INCORPORATED

Teachers' Retirement Board
March 14, 1995
Page 2

There were no significant changes in the demographic actuarial assumptions or actuarial methods used in the determination of system liabilities this year. However, there was a change in the economic actuarial assumptions and asset valuation method. The assumptions and methods, when applied in combination, fairly represent past and anticipated future experience of the System.

The total inflation assumption was changed from 5% to 4% annually. This in turn affected the economic assumptions, including investment return, salary scale, and health cost trend. The following table shows the prior and new economic assumptions:

	Prior Assumption	**New Assumption 6/30/94**
Inflation	5.0%	4.0%
Investment Return	9.0%	8.0%
Salary Scale:		
Inflation	5.0%	4.0%
Productivity	0.5%	0.5%
Merit (first 5 years)	1.0%	1.0%
Health Cost Trend:		
FY95	9.5%	9.5%
FY96	8.5%	8.5%
FY97	7.5%	7.5%
FY98	7.5%	6.5%
FY99 & later	7.5%	5.5%

The method for calculating valuation assets was changed. The new asset valuation method smooths the difference between expected investment return and actual return during a given year. The method spreads the results over five years by recognizing 20% of the investment gain or loss in each of the current and preceding four years. By spreading the asset gain or loss, only the investment return is smoothed, producing a less volatile result, leading to overall contributions which are easier to budget and at the same time remain appropriate to properly fund the system.

WILLIAM M.
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Teachers' Retirement Board
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Future contribution requirements may differ from those determined in the valuation because of:

(1) differences between actual experience and anticipated experience based on the assumptions;

(2) changes in actuarial assumptions or methods;

(3) changes in statutory provisions; or

(4) differences between the contribution rates determined by the valuation and those adopted by the Board.

The undersigned are members of the American Academy of Actuaries and are fully qualified to provide actuarial services to the State of Alaska.

We believe that this report conforms with the requirements of the Alaska statutes, and where applicable, other federal and accounting laws, regulations and rules, as well as generally accepted actuarial principles and practices.

Sincerely,

Brian R. McGee, FSA
Managing Director

Peter L. Godfrey, FIA
Principal

BRM/JWJ/BJH/PLG/jls

Teachers' Retirement System
Principle Results of the June 30, 1994, Actuarial Valuation

Funding Status as of June 30:	1993	1994
(a) Valuation Assets*	$ 2,261,082	$ 2,472,957
(b) Accrued Liability*		
i) Non-Medical Benefits	2,016,852	2,281,178
ii) Total Benefits (including medical)	2,429,456	2,761,409
(c) Funding Ratio, (a) / (b)		
i) Non-Medical Benefits	112.1%	108.4%
ii) Total Benefits (including medical)	93.1%	89.6%

* In thousands.

Employer Contribution Rates for Fiscal Year:	1996	1997
(a) Normal Cost Rate	9.06%	9.70%
(b) Past Service Rate	3.42%	5.26%
(c) Total Contribution Rate	12.48%	14.96%
(d) Actuarial Projection Rate	12.00%	12.00%

TRS Actuarial Assumptions and Methods

The demographic assumptions used in this valuation were adopted at the Fall 1991 TRS Board Meeting. Economic assumptions were adopted as a result of a presentation to the Board in October 1994. The funding method used in this valuation was adopted June 30, 1985. The five-year smoothing method used to determine valuation assets was changed effective June 30, 1994.

Valuation of Liabilities

A. Actuarial Method - Projected Unit Credit (no change). Liabilities and contributions shown in the report are computed using the Projected Unit Credit method of funding. The unfunded accrued liability is amortized over a rolling 25 years. Any funded surpluses are amortized over five years.

The objective under this method is to fund each participant's benefits under the plan as they accrue. Thus, each participant's total pension projected to retirement with salary scale is broken down into units, each associated with a year of past or future service. The principle underlying the method is that each unit is funded in the year for which it is credited. Typically, when the method is introduced there will be an initial liability for benefits credited for service prior to that date, and to the extent that this liability is not covered by Assets of the Plan there is an Unfunded Liability to be funded over a chosen period in accordance with an amortization schedule.

An <u>Accrued Liability</u> is calculated at the valuation date as the present value of benefits credited with respect to service to that date.

The <u>Unfunded Liability</u> at the valuation date is the excess of the Accrued Liability over the Assets of the Plan. The level annual payment to be made over a stipulated number of years to amortize the Unfunded Liability is the <u>Past Service Cost</u>.

The <u>Normal Cost</u> is the present value of those benefits which are expected to be credited with respect to service during the year beginning on the valuation date.

Under this method, differences between the actual experience and that assumed in the determination of costs and liabilities will emerge as adjustments in the Unfunded Liability, subject to amortization.

B. Actuarial Assumptions -

1.	Investment Return	8% per year, compounded annually, net of expenses.	
2.	Salary Scale	Inflation -	4.0% per year
		Productivity -	0.5% per year
		Merit (first 5 years of employment) -	1.0% per year
3.	Total Inflation	Total inflation as measured by the Consumer Price Index for urban and clerical workers for Anchorage is assumed to increase 4% annually.	
4.	Health Cost Trend	FY95 -	9.5%
		FY96 -	8.5%
		FY97 -	7.5%
		FY98 -	6.5%
		FY99 and later -	5.5%

5. Mortality	1984 Unisex Pension Mortality Table, set forward one year for male members and set backward four years for female members. All deaths are assumed to result from nonoccupational causes.
6. Turnover	Based upon the 1986-90 actual total turnover experience. (See Table 1).
7. Disability	Incidence rates based upon the 1986-90 actual experience, in accordance with Table 2. Post-disability mortality in accordance with rates published by the Pension Benefit Guaranty Corporation to reflect mortality of those receiving disability benefits under Social Security.
8. Retirement Age	Retirement rates based upon the 1986-90 actual experience in accordance with Table 3.
9. Spouse's Age	Wives are assumed to be four years younger than husbands.
10. Dependent Children	Benefits to dependent children have been valued assuming members who are not single have one dependent child.
11. Contribution Refunds	100% of those terminating after age 35 who are vested will leave their contributions in the fund and thereby retain their deferred vested benefit. All others who terminate are assumed to have their contributions refunded.
12. C.O.L.A.	Of those benefit recipients who are eligible for the C.O.L.A., 66% are assumed to remain in Alaska and receive the C.O.L.A.
13. New Entrants	Growth projections are made for the active TRS population under three scenarios: Pessimistic: 0% per year Median: 1% per year Optimistic: 2% per year
14. Sick Leave	4.7 days of unused sick leave for each year of service will be available to be credited once the member is retired.
15. Expenses	Expenses are covered in the investment return assumption.

Valuation of Assets

Effective June 30, 1994, the asset valuation method recognizes 20% of the investment gain or loss in each of the current and preceding four years. All assets are valued at market value. Assets are accounted for on an accrued basis and are taken directly from audited financial statements provided by KPMG Peat Marwick. Valuation assets cannot be outside a range of 80% to 120% of the market value of assets.

Valuation of Medical Benefits

Medical benefits for retirees are provided by the payment of premiums from the fund. A pre-65 cost and lower post-65 cost (due to Medicare) are assumed such that the total rate for all retirees equals the present premium rate assumption. These medical premiums are then increased with the health inflation assumption. The actuarial cost method used for funding retirement benefits is also used to fund health benefits.

For FY96, the pre-65 monthly premium is $458.17 and the post-65 premium is $174.54, based on an assumed total blended premium of $350.50. For FY96, the actual blended premium is $350.50. The FY96 blended premium was provided by the State of Alaska Division of Retirement and Benefits.

Table 1

Alaska Teachers' Retirement System

Total Turnover Assumptions

Select Rates of Turnover During the First 10 Years of Employment		Ultimate Rates of Turnover After the First 10 Years of Employment	
Year of Employment	Rate	Ages	Rate
1	.26	20-39	.03
2	.24	40+	.02
3	.16		
4	.12		
5	.11		
6	.10		
7	.09		
8	.09		
9	.09		
10	.09		

Table 2

Alaska Teachers' Retirement System
Disability Rates
Annual Rates Per 1,000 Employees

Age	Rate
20	.14
21	.14
22	.14
23	.15
24	.15
25	.15
26	.15
27	.15
28	.16
29	.16
30	.16
31	.17
32	.17
33	.25
34	.34
35	.44
36	.53
37	.64
38	.75
39	.87
40	.99
41	1.12
42	1.25
43	1.39
44	1.53
45	1.68
46	1.84
47	2.00
48	2.17
49	2.34
50	2.52
51	2.70
52	2.89
53	3.08
54	3.29
55	3.49
56	3.70
57	3.92
58	4.14
59	4.37
60	4.61
61	4.84
62	5.09
63	5.34
64	5.60

Table 3

Alaska Teachers' Retirement System Retirement Rates

Age at Retirement	Retirement Rate
50	.10
51	.07
52	.07
53	.07
54	.07
55	.16
56	.16
57	.16
58	.16
59	.13
60	.13
61	.13
62	.13
63	.13
64	.10
65	.47
66	.82
67	1.00

For ages less than 50, teachers are assumed to retire two years after the earliest age they are eligible to retire.

Teachers' Retirement System Schedule of Active Member Valuation Data				
Valuation Date	**Number**	**Annual Payroll (000s)**	**Annual Average Pay**	**Percent Increase In Average Pay**
June 30, 1994	9,489	$476,098	$50,174	3.2%
June 30, 1993	9,459	459,746	48,604	.2%
June 30, 1992	9,238	448,186	48,515	2.2%
June 30, 1991	8,903	422,655	47,473	4.6%
June 30, 1990	8,586	389,702	45,388	1.8%
June 30, 1989	8,527	380,267	44,596	1.4%
June 30, 1988	8,218	361,310	43,966	(1.7)%
June 30, 1987	7,797	348,606	44,710	.6%
June 30, 1986	8,824	392,136	44,440	7.8%
June 30, 1985	8,684	358,110	41,238	4.6%

Teachers' Retirement System Schedule of Retirants and Beneficiaries Added to and Removed from Rolls								
	Added to Rolls		**Removed from Rolls**		**Rolls - End of Year**		**Percent Increase in Annual Allowances**	**Average Annual Allowance**
Year Ended	**No.***	**Annual Allowances***	**No.***	**Annual Allowances***	**No.**	**Annual Allowances**		
June 30, 1994	280	$8,923, 551	37	$ 616,360	4,134	$100,589,912	9.00%	$24,332
June 30, 1993	344	8,557,344	55	1,044,709	3,891	92,282,721	6.74%	23,717
June 30, 1992	120	5,799,044	62	1,436,106	3,602	86,452,653	5.31%	24,001
June 30, 1991	519	14,827,829	159	3,535,365	3,544	82,089,715	15.95%	23,163
June 30, 1990	208	6,181,779	122	2,648,864	3,184	70,797,251	5.25%	22,235
June 30, 1989	201	5,730,311	75	1,593,075	3,098	67,264,336	6.55%	21,712
June 30, 1988	639	16,668,442	43	856,302	2,972	63,127,100	33.42%	21,241
June 30, 1987	301	8,922,546	23	425,546	2,376	47,314,960	21.89%	19,914
June 30, 1986	189	3,685,188	113	2,079,652	2,098	38,817,960	4.31%	18,502
June 30, 1985	289	9,844,034	31	489,552	2,022	37,212,424	33.58%	18,404

* Numbers are estimated, and include other internal transfers.

TRS Summary of Accrued and Unfunded Accrued Liabilities

Valuation Date	Aggregate Accrued Liability (000s)	Valuation Assets (000s)	Assets as a Percent of Accrued Liability	Unfunded Accrued Liabilities (UAL) (000s)	Annual Active Member Payroll (000s)	UAL as a Percent of Annual Active Member Payroll
June 30, 1994[1][2]	$2,761,409	$2,472,957	89.6%	$288,452	$476,098	60.6%
June 30, 1993	2,429,456	2,261,082	93.1%	168,374	459,746	36.6%
June 30, 1992[1]	2,231,746	2,001,864	89.7%	229,882	448,186	51.3%
June 30, 1991[2]	2,075,405	1,779,579	85.7%	295,826	422,655	70.0%
June 30, 1990[3]	1,895,030	1,662,242	87.7%	232,788	389,702	59.7%
June 30, 1989[1]	1,557,643	1,480,389	95.0%	77,254	380,267	20.3%
June 30, 1988[2]	1,347,859	1,331,905	98.8%	15,954	361,310	4.4%
June 30, 1987	1,210,909	1,225,009	101.2%	-	348,606	-
June 30, 1986	1,115,773	1,040,173	93.2%	75,600	392,136	19.3%
June 30, 1985[2][4]	1,042,551	833,617	80.0%	208,934	358,110	58.3%

[1] Change in Asset Valuation Method.
[2] Change of Assumptions.
[3] Change in Plan Provisions.
[4] Change in Funding Method.

TRS Solvency Test

Valuation Date	Aggregate Accrued Liability For: (1) Active Member Contributions (000s)	(2) Inactive Members (000s)	(3) Active Members (Employer-Financed Portion) (000s)	Valuation Assets (000s)	Portion of Accrued Liabilities Covered by Assets (1)	(2)	(3)
June 30, 1994[1][2]	$398,990	$1,419,506	$942,913	$2,472,957	100%	100%	69.4%
June 30, 1993	370,667	1,223,220	835,569	2,261,082	100%	100%	79.8%
June 30, 1992[1]	341,204	1,110,981	779,561	2,001,864	100%	100%	70.5%
June 30, 1991[2]	293,136	1,056,453	725,816	1,779,579	100%	100%	59.2%
June 30, 1990[3]	269,491	940,475	685,064	1,662,242	100%	100%	66.0%
June 30, 1989[1]	253,436	779,296	524,911	1,480,389	100%	100%	85.3%
June 30, 1988[2]	228,217	688,090	431,552	1,331,905	100%	100%	96.3%
June 30, 1987	210,493	578,468	421,948	1,225,009	100%	100%	100.0%
June 30, 1986	214,192*	426,333	475,248*	1,040,173	100%	100%	84.1%
June 30, 1985[2][4]	194,215*	419,694	428,642*	833,617	100%	100%	51.3%

* Estimated
[1] Change in Asset Valuation Method.
[2] Change of Assumptions.
[3] Change in Plan Provisions.
[4] Change in Funding Method

Teachers' Retirement System
Analysis of Financial Experience

Change in Contribution Rate Due to Gains and Losses in Accrued Liabilities During the Last Five Fiscal Years Resulting From Differences Between Assumed Experience and Actual Experience

Type of Gain or Loss	Change in Contribution Rate During Fiscal Year 94	93	92	91	90
(1) Health Experience	0.25%	-	-	(3.01)%	(2.28)%
(2) Salary Experience	(0.20)%	(.45)%	(.34)%	(.20)%	(.49)%
(3) Investment Experience	0.55%	(1.66)%	-	.70%	(1.04)%
(4) Demographic Experience	0.47%	1.23%	(.59)%	.96%	1.10%
(5) Miscellaneous	-	-	-	-	.44%
(6) Gain (or Loss) During Year From Experience, (1) + (2) + (3) + (4) + (5)	1.07%	(.88)%	(.93)%	(1.55)%	(2.27)%
Non-recurring Changes					
(7) Contribution Rate Smoothing Method	-	-	-	1.21%	(3.96)%
(8) Projection Valuation Method	-	-	(1.36)%	(4.80)%	-
(9) Asset Valuation Method	(0.89)%	-	(1.30)%	-	-
(10) Assumption Changes	2.30%	-	-	(2.51)%	-
(11) Plan Changes	-	-	-	-	6.76%
Composite Gain (or Loss) During Year, (6) + (7) + (8) + (9) + (10) + (11)	2.48%	(.88)%	(3.59)%	(7.65)%	.53%

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INVESTMENT SECTION

Alaska State Pension Investment Board

P.O. Box 110400 Juneau, Alaska 99811-0400
(907) 465-4880

Message from the Chairman

TO OUR PARTICIPANTS AND BENEFICIARIES

I am pleased to present you, the participants and beneficiaries of this retirement trust fund, with the 1995 Annual Report of Investments.

Fiscal year 1995 was a challenging yet successful year for the Alaska State Pension Investment Board. The bond market went from one of its worst to one of its best years during the fiscal year, and thanks to our dedicated staff working with an adaptable asset allocation plan, we were able to sustain a rate of return that holds up well against any comparable pension plan.

The Alaska State Pension Investment Board was created as of July 1, 1993. Since that time, we have taken tremendous strides forward. The strength and knowledge that comes with continuity has enabled us to make difficult decisions in the ever changing financial world.

I was honored to be reelected in January 1995 to serve four additional years and also selected as Chairman this year. Mr. William A. Corbus was reappointed as trustee by Governor Tony Knowles, clearly indicating confidence in Mr. Corbus's abilities and appreciation for his contributions to the Board. The Board was also very pleased with Governor Knowles' appointment of Wilson L. Condon, Commissioner of Revenue who by statute serves on the Board.

The Alaska State Pension Investment Board represents close to sixty thousand participants and beneficiaries of the retirement systems. As fiduciaries of funds worth billions of dollars, the members of the Board believe that you, the plan participants, should be well informed about the investments of your retirement system. We encourage you to express your views to your representatives on the Board.

The annual review and adoption of the asset allocation plan continues to be one of the most important activities of the Board. The asset allocation plan adopted by the Board on March 30, 1995 called for an investment distribution as follows: 40% in U.S. Equities, 9% in International Equities, 48% in Domestic Fixed Income and 3% in Real Estate. This portfolio structure is on the "efficient frontier," a phrase that means an asset mix designed to create the highest expected return from a given level of risk. Investment returns for the year ending June 30, 1995 were 15.90% for the Teachers' fund. These returns were above the average for public plans, and well above actuarial assumption of what the returns are expected to average over the long run.

Nearly one-half of the fund's assets are fixed income securities invested by the investment staff of the Department of Revenue. These seasoned professionals are working hard on your behalf. Investment returns over the past five years have exceeded the returns on the Lehman Brothers Aggregate index and ranked our fixed income performance in the top third of public funds. Returns from fixed income investments for fiscal year 1995 also exceeded the index and were in the top third of public funds.

The Board is fortunate to have three Investment Advisory Council members who possess experience and expertise in financial investments and management of investment portfolios. The Board has just completed a rigorous review to select two new members to this council. The two individuals just selected bring a combined total of sixty years of professional hands on investment experience to our deliberative Board process.

Notice of Board meetings are published in advance and we encourage your attendance so that we may answer your questions and hear your suggestions. We intend to rotate our meetings throughout the state in the larger communities.

On behalf of all the Trustees, thank you for giving us the opportunity to serve you.

ALASKA STATE PENSION INVESTMENT BOARD

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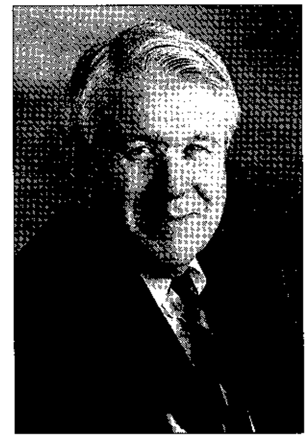

Wilson L. Condon
Statutory Representative

William A. Corbus
Appointed by the Governor

Ross A. Kinney
Appointed by the Governor

Merritt C. Olson
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ASPIB Liaison Officer Marty Lentz	**Comptroller** Betty Martin, CPA	**Cash Management** Vernon B. Voss

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Consultants and Performance Measurement
Callan Associates, Inc.
Denver, CO
Callan Associates, Inc.
San Francisco, CA

Domestic Equity Large Cap
Ark Asset Management Co., Inc.
New York, NY
IDS Advisory Group
Minneapolis, MN
Invesco Capital Management, Inc.
Atlanta, GA
MacKay-Shields Financial Corp.
New York, NY
Newbold's Asset Management, Inc.
Bryn Mawr, PA

Domestic Equity Small Cap
Capital Guardian Trust Co.
Los Angeles, CA
John McStay Investment Counsel
Dallas, TX
The Putnam Companies
Boston, MA
RCM Capital Management
San Francisco, CA

Tactical Asset Allocation
Wells Fargo Nikko Investment Advisors
San Francisco, CA

Domestic Equity Index
State Street Global Asset Management
Boston, MA

Global Equity
Lazard Freres Asset Management
New York, NY
Miller, Anderson & Sherrerd
West Conshohocken, PA

International Equity—EAFE
J. P. Morgan Investment Management, Inc.
London, England

International Equity—Europe
Citibank Global Asset Management
New York, NY

International Equity—Pacific Basin EX Japan
G.T. Capital Management
San Francisco, CA
Wellington Management Co.
Boston, MA

International Equity–Emerging Markets
Capital Guardian Trust Co.
Los Angeles, CA
J.P. Morgan Investment Management, Inc.
New York, NY

Real Estate Management
AETNA Realty Investors
Hartford, CT
Hancock Realty Investors, Inc.
Boston, MA
Heitman/JMB Advisory Corp.
Chicago, IL
Koll Investment Management
Newport Beach, CA
JP Morgan Investment Management, Inc.
New York, NY
Sentinel Real Estate Corp.
New York, NY
Equitable Real Estate Investment Management
Irvine, CA

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Anchorage, AK

The U.S. Economy

In fiscal year 1995, the U.S. economy had a gross domestic product growth rate of 2.8%. The economy produced a 4.2% average growth rate during the first half of the year but only mustered a 1.9% growth rate in the second half.

Most of the second half slow down was caused by a drastic decline in manufacturing activities as U.S. companies curtailed their pace of restocking inventories. Initially, inventory accumulated at an annual rate of $50 billion but subsequently slowed to a rate of $30 billion. The Commerce Department singled out the auto sector as the main factor in slowing down inventory accumulation.

Despite the volatility in economic activity, the underlying inflation pressure remained benign. The consumer price index increased 3% during the fiscal year while the producer price index rose at a moderate rate of 2.2%. Price pressure in the production pipeline, which was evident early in the year, dissipated. Other indicators also reflected a favorable inflation picture. Key commodity prices remained stable, easing inflationary pressures. The price of gold closed the year at $395 per ounce while crude oil finished at $17 per barrel. Both commodities experienced a mild price decline during the year.

The key contributor to the year's contained inflation was unit labor cost. Economists have long agreed that unit labor cost accounts for two thirds of the manufacturing cost in the United States. During the last four years the increase in unit labor cost averaged less than 1% compared to an annual rate of 4.1% during the 1980s. This is the outcome of the restructuring trend that corporate America started in the late 1980s. U.S. companies have zealously curtailed their personnel expenses.

Job growth was anemic, generating an average of only 200,000 new jobs every month in fiscal year 1995, a level that is substantially below the historical average for a recovering economy. Simultaneously, U.S. companies invested heavily in technology during the last few years. The latest survey from the Commerce Department indicated capital expenditures should continue to grow at a healthy pace.

America's productivity has surged with this technology boom. Despite being five years into the current economic recovery, productivity increased 3.5% during the fourth quarter of the fiscal year. America enjoyed a 2.2% annual growth in productivity during the last five years and has surpassed Japan and Germany as the most competitive producer.

The initial economic strength in fiscal year 1995 allowed the Federal Reserve Bank to maintain a tight monetary policy. Federal Reserve officials, concluding that economic growth would lead to higher inflation, raised short term interest rates three times during the year with the last rate hike in February. The federal funds rate was increased by 1.75% and closed out the year at 6%. Interest rate sensitive sectors of the economy were hit hard. Final demands for the auto and housing sectors dropped off significantly in the second half of the year.

The year finished with the Federal Reserve Bank firmly committed to its long term price stability objective. The Federal Reserve Bank appears to have successfully engineered a slow down in the economy. More importantly, the economy entered its sixth year of the expansion without triggering any inflation pressures.

Investment Overview

Fiscal year 1995 was the second year that the Alaska State Pension Investment Board (ASPIB) had fiduciary responsibility for the assets of the Teachers' Retirement System (TRS). The eight member Board is charged with the duty of ensuring that the assets of the TRS Fund are managed effectively.

Annually, the Trustees of ASPIB analyze a wide array of asset classes, examining expected returns and risk parameters. This review is necessary to ensure that the optimal combinations of investments are balanced with the Fund's long term objective of meeting future liabilities.

ASPIB's determination to maintain long term investment objectives was never more important than this past fiscal year. Many investors reacted defensively in response to the Federal Reserve Bank raising short-term interest rates late in the prior fiscal year. During this period, ASPIB did not waver from its long term investment strategies.

ASPIB's thorough review process, using an independent consulting firm and a disciplined investment approach, earned 15.90% for the Fund in the fiscal year. Three and five year periods also earned double digit returns. On an annualized basis the Fund earned 10.82% for the last three years and 10.12%, for the last five years.

During the ongoing review process, ASPIB compares the Fund's investment returns against a relevant universe of other public funds. The investment returns for the Fund continue to be well above median over all time periods. More importantly, these returns continue to be in excess of the actuarial earning rate needed to meet future liabilities.

Fixed Income

The Teachers' Retirement System's $1.2 billion of fixed income investments are managed by staff of the Alaska Department of Revenue, Treasury Division.

The fixed income performance was exceptional during fiscal year 1995. In spite of the volatile year, the Fund's fixed income investment performance was superior to that of the investment benchmark, the Lehman Brothers Government Corporate Index.

The conservative investment approach, which protected the Fund's assets in the difficult market during fiscal year 1994, still produced excellent results in fiscal year 1995. The Fund's fixed income investments produced a return of 13.0% compared to a return of 12.76% for the investment index.

The year began with the portfolio structured to reduce the impact of rising interest rates, while retaining the flexibility to take advantage of market rallies. At the end of the fiscal year the portfolio had a higher yield than the investment index at 6.42% compared to 6.35% for the index.

The three and five year returns are excellent both on an absolute basis and compared to the index. These results were produced by a strategy designed for consistent long term returns with limited risk. The strategy is based on three key principles:

- First, investing is a long term undertaking. Therefore, long term trends, objectives, and risk/returns analysis should guide the process. Short term opportunities or trends may appear but the long term focus must not be lost.
- Second, investment efforts should be focused where the long term risk return relationship is most advantageous. Research, based on data from 1926 to 1994, found that corporate bonds have produced greater returns with less risk than government bonds of similar maturity. TRS' investments are focused on intermediate corporate and government bonds (5 to 12 year maturity) because research has shown that these bonds have produced superior returns with significantly less risk than long term bonds.

- Diversification and risk control are the final keys to the TRS investment portfolio. The corporate bond investments are restricted to investment grade bonds. There are no "junk bonds" in the portfolio. TRS will not purchase more than 10% of any individual issue and no individual issuer's debt will comprise more than 5% of the total portfolio. These and other restrictions preserve the liquidity of the portfolio and provide excellent diversification.

The fiscal year began with interest rates rising as the Federal Reserve Bank continued to tighten monetary policy to guard against significant increase in inflation. By the middle of November 1994 the yield on the United States Treasury ten year note was above 8%, having started the year at 7%. Inflation expectations began to wane as market participants became convinced the Federal Reserve Bank had effectively moderated economic growth to a sustainable level. Through the second half of the fiscal year the economy continued to slow and inflation expectations continued to moderate.

Events in the international currency markets also supported the fixed income market rally in an indirect way. Foreign central banks, attempting to raise the value of the dollar, contributed to the rally by making large purchases of United States Treasury notes. The declining value of the dollar also made United States stocks and bonds more attractive to foreign investors once the dollar's value stabilized. All of this resulted in one of the strongest fixed income market rallies in history. Of the 13% return for the entire fiscal year, 11.93% came in the second half of the year.

Several other items contributed to the strong returns of the portfolio.

- The stable economy indirectly boosted investment returns.

- The moderate economy growth also helped reduce the required credit premium on corporate bonds.

- The issuance of new corporate bonds continued at a moderately slow pace.

As a result, corporate bonds had better performance than United States Treasury securities with similar maturities. In fiscal year 1995 the TRS portfolio continued to enjoy the higher yield of corporate bonds.

The TRS portfolio had a slightly longer maturity and a greater concentration in high grade corporate bonds than the Lehman Brothers Government Corporate Index. It is these two characteristics that gave the portfolio its return advantage over the index.

Equities

The well-diversified investments of TRS' $1.15 billion domestic equity and $222 million international equity portfolios are designed to limit risk from a specific company or economic region. This is achieved by hiring multiple equity managers who have a record of accomplishments with specific types of portfolios and mandates.

Domestic equity managers are contracted by the Alaska State Pension Investment Board because of their expertise in managing specific portfolio styles. These styles include growth and value stocks as well as large and small capitalization companies.

Multiple managers are employed to reduce risk in a given style or mandate. Should growth stocks perform poorly, for example, another style such as value stocks or smaller company stocks may well have greater returns.

The same approach is employed with the international equity portfolio. Several external managers are employed who have regional expertise. This is exemplified by the Fund's approach to using managers for our European and Pacific Basin portfolios who have demonstrated their skills in these areas.

The domestic and international equity portfolios earned above average returns for fiscal year 1995. The domestic equity portfolio returned 22.82% for the year which compares favorably to the median active management returns of 22.68%. While quite favorable, it should be noted that the relevant Standard & Poor's (S & P) 500 Index returned 26.08%. Returns for longer time periods show performance that is comparable to the S & P 500 Index. The annualized results for three years is 13.78% versus index returns of 13.18%. Five year annualized return were 11.72% versus 12.05% for the S & P 500 Index.

International equities earned 3.40% for the year ending June 30, 1995. These returns exceeded the benchmark Morgan Stanley Capital International, Europe, Australia, and Far East (EAFE) Index by 1.74%. As was the case for domestic equities, the international equity portfolio had returns that compared favorably to the EAFE Index for longer periods of time. The annualized rate of return for three years is 12.11% versus 12.68% for the benchmark index and 6.79% versus 4.69% for five years.

Quarterly Highlights

Quarter ending September 30, 1994:

The domestic and international equity market earned positive returns for the quarter. Domestic equities, buoyed by rising corporate profits, returned 4.9%. The best performing sectors were consumer staples and raw and intermediate materials, with returns of 13.17% and 11.58% respectively. The weakest sectors were transportation and financials, with returns of negative 6.18% and negative 1.60%

The international equity market earned a return of 0.1%. Japan, the largest component of the EAFE Index, was the poorest performing market with negative returns of 5.3%. Markets with the highest return were Finland, 24.8%, Malaysia, 13.7% and Ireland, 13.0%.

Quarter ending December 31, 1994:

Domestic equities traded in a narrow range for the quarter and ended with a slightly negative return of 0.01%. Prices of domestic stocks were restrained by rising interest rates. The Federal Reserve Bank raised short-term interest rates by 0.75% during this quarter. Consumer staples continued to be the best performing sector with returns of 3.52%. The second best sector was technology with a positive 2.9%. The weakest sectors, much as the preceding quarter, were raw and intermediate materials, negative 7.48% and financials, negative 3.05%.

International equities were hurt by poor performance in Asia. For the quarter, the international portfolio had a return of negative 1.0%. The poorest performing markets were Hong Kong, negative 14.2%, Malaysia, negative 13.3% and Japan, negative 1.3%. The best performing international equity markets were Norway, 11.8%, Sweden, 5.0% and the Netherlands, 4.2%.

Quarter ending March 31, 1995:

Domestic equities were the best performing asset class for the quarter ending March 31, 1995. As measured by the S & P 500 Index, the domestic equity market returned 9.73%. Within this index, stocks with positive returns outnumbered stocks with negative returns by a ratio of six to one during this quarter. Moderate economic growth and the perception that the Federal Reserve Bank would not be required to raise short-term interest rates were the catalyst for the high returns.

The best performing sectors of the S & P 500 Index were the transportation and financial sectors, with returns of 15.35% and 12.72% respectively. Utility and consumer cyclical stocks were the poorest sectors, but still had returns of 6.89% and 7.66% respectively.

This quarter's currency fluctuation played a critical role in the performance of the international portfolio. International equities performed poorly on a local currency basis with a negative 7.79% return. Due to a weakening United States dollar, however, international equity returns as measured by the EAFE Index resulted in a U.S. dollar-based return of 1.29%. In U.S. dollar terms, the best performing international equity markets were France, 12.5% and Switzerland, 12.0%. The poorest performing markets were Italy, negative 8.3% and Norway, negative 4.1%.

Quarter ending June 30, 1995:

Signs of a slowing economy and subdued inflation continued to ease investors' fears of rising short-term interest rates. This positive environment and the possibility of the Federal Reserve Bank considering lower short-term interest rates continued to propel domestic equities.

For the second quarter in a row, the U.S. stock market was the best performing asset class returning 9.53% as measured by the S & P 500 Index. The technology and financial sector continued to lead with returns of 19.86% and 12.35% respectively. Energy was the weakest sector with a return of 3.07%.

International equities had positive returns of 0.73%. These returns were earned despite a weak Japanese market, returning a negative 6.3%. The highest returns were posted by Finland, 34.3%, Sweden, 15.6% and Spain, 15.1%.

Real Estate

The Teachers' Retirement System (TRS) had $62 million invested during the fiscal year 1995 in real estate investments through commingled funds administered by nationally recognized investment managers. The NCREIF Index, a national barometer of commingled fund performance, reflected the continued improvement in the real estate market with one-year returns increasing from 4.07% in fiscal year 1994 to 7.83% in fiscal year 1995.

The returns from real estate equities held by TRS increased from 6.50% in fiscal year 1994 to 7.78% in fiscal year 1995. The return for the current year is also a significant improvement over the portfolio's three-year return of 4.27% and five-year negative return of 2.49%.

While the real estate market enjoyed continued improvement, different property types and geographical locations experienced varying degrees of success. In certain growth markets apartments performed well, with rental rates climbing to replacement cost levels, which spurred new construction. But values in many markets have peaked, so the demand for apartment investments was not as strong as in recent years.

Improved market fundamentals increased the desirability of industrial properties. As the economy expanded, vacant space was substantially reduced by increased demand and a very low rate of speculative construction. Income growth accelerated, and industrial property values increased. Investment interest continued as attractive returns were available in many markets.

Premium retail properties continued to experience upward price movement. The most desired property types were the upper-tier regional and super-regional malls and "power centers" that include merchandisers such as K-Mart, Price/Costco, and Toys-R-Us. Many investors concluded that malls were overpriced and many markets had become saturated with power centers. Institutional investors were extremely selective in their retail property purchases because of the ever changing retail environment and the reduced returns available.

The office market became a prime target for many investors because of its higher return potential and improved market fundamentals. Office space is the only remaining major property type selling at prices significantly below replacement cost. While vacancies are declining, mergers and corporate downsizing have hindered recovery.

The real estate markets in Seattle and Portland continued to experience solid growth. Salt Lake City, Phoenix, and Las Vegas are peaking with slower rates of recovery than projected. A continued rapid market expansion is expected in Chicago, Orlando, Atlanta, and a sizable portion of North Carolina, but portions of California and the Northeast are likely to see continued slow or no growth.

Improved market fundamentals and significant capital flows from private, public, and institutional equity investors provided the impetus for improvement in the real estate markets, leading many analysts to conclude that this asset class is at the midpoint of a recovery from the greatest real estate debacle since the depression.

Teachers' Retirement System
Investment Summary Schedule
Year Ended June 30, 1995
(000s omitted)

	6/30/94 Book Value	6/30/94 Market Value	Purchases & Reinvested Income	Maturities, Sales and Amortizations	6/30/95 Book Value	6/30/95 Market Value	% Total Market
Marketable Debt Securities							
U.S. Government Debt	$ 450,630	$ 487,181	$ 163,144	$ 110,939	$ 478,527	$ 539,386	20.39%
Federal Agency Debt	22,392	22,856	28,635	2,475	47,742	49,016	1.85
Corporate Debt	428,871	436,999	309,404	146,646	568,223	599,757	22.69
Commercial Paper	69,640	69,617	131,598	181,300	19,915	19,915	0.75
Other Dollar Denominated Securities*	83,824	79,909	38,955	118,864	-	-	-
Equity Securities							
Domestic Equity Pool	859,198	923,925	229,297	1,953	968,759	1,151,269	43.55
International Equity Pool	188,873	209,148	8,643	16,193	184,384	201,598	7.63
Emerging Markets Equity Pool	20,700	21,255	(399)	-	21,218	20,856	0.79
Real Estate							
Mortgage loans, net of Allowance	3,733	3,733	-	1,084	2,649	2,649	0.10
Real Estate Equity Investments	93,501	69,397	5,343	15,383	81,013	59,357	2.25
Total Investments	**$ 2,221,362**	**$2,324,020**	**$914,620**	**$594,837**	**$2,372,430**	**$2,643,803**	**100.00%**

* Combined with Corporate Debt on 6/30/95.

Teachers' Retirement System
Schedule of Investment Results
Fiscal Years Ended June 30

						Annualized	
	1991	**1992**	**1993**	**1994**	**1995**	**3 Year**	**5 Year**
Total Fund							
TRS	7.05%	11.17%	14.38%	2.65%	15.90%	10.82%	10.12%
CPI	4.69%	3.09%	2.82%	2.39%	3.08%	2.76%	3.16%
U.S. Common Stock Returns							
TRS Domestic Equities	5.87%	11.10%	15.66%	3.69%	22.82%	13.78%	11.72%
S&P 500	7.41%	13.45%	13.58%	1.24%	26.08%	13.18%	12.05%
International Stock Returns							
TRS International Equities	(8.63%)	7.87%	9.41%	24.56%	3.40%	12.11%	6.79%
Morgan Stanley Capital Internt'l EAFE	(11.53%)	(0.64%)	20.28%	17.00%	1.66%	12.68%	4.69%
Domestic Fixed Income							
TRS	10.19%	15.14%	15.11%	(1.35%)	13.00%	8.66%	10.24%
Lehman Brothers Government/Corporate	10.21%	14.17%	13.15%	(1.45%)	12.76%	7.93%	9.61%
Real Estate Equity							
TRS	(11.43%)	(12.19%)	(1.24%)	6.50%	7.78%	4.27%	(2.49%)
NCREIF Index	(1.24%)	(6.83%)	(3.51%)	4.07%	7.83%	2.68%	(0.07%)

CPI = Consumer Price Index
S&P 500 = Standard & Poor's Domestic Equity Stock Index
EAFE = Europe, Australia, and Far East Stock Index
NCREIF = National Council of Real Estate Investment Fiduciaries Index

Teachers' Retirement System
Schedule of Investment Management Fees
Year Ended June 30, 1995

Investment Advisors	
Callan Associates, Inc.	$ 8,770
Investment Advisory Council	28,429
Performance Measurement	
Callan Associates, Inc.	57,316
Real Estate Consultants	
The Townsend Group	31,692
Domestic Equity Managers	
Ark Asset Management Co., Inc.	432,904
Capital Guardian Trust Co.	110,234
IDS Advisory Group	266,511
Invesco MIM, Inc.	299,633
John McStay Investment Counsel	356,838
MacKay-Shields Financial Corp.	129,640
Newbold's Asset Management, Inc.	136,587
The Putnam Companies	263,177
RCM Capital Management	272,826
State Street Global Asset Management	91,838
Tactical Asset Allocation Managers	
Wells Fargo Nikko Investment Advisors	351,892
Global Equity Managers	
Lazard Freres Asset Management	248,322
Miller, Anderson & Sherrerd	370,966
International Equity Managers	
Citibank Global Asset Management	130,044
G.T. Capital Management	181,775
J.P. Morgan Investment Management, Inc.	217,955
Wellington Management Co.	168,247
Emerging Markets	
J.P. Morgan Investment Management, Inc.	100,983
Capital Guardian Trust	105,929
Total	**$4,362,508**

STATISTICAL SECTION

Teachers' Retirement System
System Membership

Year	Active	Retirees & Beneficiaries	Vested Terminations	Nonvested Terminations w/Balance	Total
1985	8,684	2,022	335	1,093	12,134
1986	8,824	2,098	481	869	12,272
1987	7,797	2,376	777	1,529	12,479
1988	8,218	2,972	408	938	12,536
1989	8,527	3,098	508	943	13,076
1990	8,586	3,184	816	985	13,571
1991	8,903	3,544	645	1,003	14,095
1992	9,238	3,602	710	1,057	14,607
1993	9,459	3,891	823	1,013	15,186
1994	9,489	4,134	930	1,090	15,643

Teachers' Retirement System
Active Members Average Age, Service, and Salary

Year	Number	Average Age	Average Credited Service	Average Annual Salary
1985	8,684	40.04	9.54	$ 41,238
1986	8,824	40.48	9.81	44,440
1987	7,797	41.09	10.45	44,710
1988	8,218	41.34	10.46	43,966
1989	8,527	41.82	10.61	44,596
1990	8,586	42.21	10.62	45,388
1991	8,903	42.28	10.48	47,473
1992	9,238	42.74	10.75	48,515
1993	9,459	43.06	10.92	48,604
1994	9,489	43.32	11.06	50,174

TRS Schedule of Retired Members by Type of Retirant and Option Selected
June 30, 1994

Amount of Monthly Benefit	Number of Retirees	Type of Retirement 1	Type of Retirement 2	Type of Retirement 3	Option Selected # Opt. 1	Opt. 2	Opt. 3	Opt. 4
$1 - $ 300	52	36	16	-	39	8	5	-
301 - 600	178	139	39	-	137	28	8	5
601 - 900	244	204	40	-	189	36	11	8
901 - 1200	314	284	26	4	244	46	19	5
1201 - 1500	382	360	22	-	333	27	18	4
1501 - 1800	511	492	13	6	434	43	31	3
1801 - 2100	633	605	15	13	529	68	30	6
2101 - 2400	560	540	7	13	479	48	26	7
2401 - 2700	432	404	7	21	364	49	16	3
2701 - 3000	285	265	5	15	238	32	11	4
over 3000	543	502	19	22	462	54	19	8
Totals	4,134	3,831	209	94	3,448	439	194	53

Type of Retirement

1 - Normal retirement
2 - Survivor payment
3 - Disability retirement

Option 1 - Whole Life Annuity
Option 2 - 75% Joint and Survivor Annuity
Option 3 - 50% Joint and Survivor Annuity
Option 4 - 66-2/3% Joint and Survivor Annuity

TRS Schedule of Average Benefit Payments
New Retirees

Years of Credited Service	0 - 4	5 - 9	10 - 14	15 - 19	20 - 24	25 - 29	30+
Period 7/1/89 - 6/30/90:							
Average Monthly Benefit	$1,161	$1,215	$1,551	$2,295	$2,394	$3,852	$3,733
Number of Active Retirants	6	36	33	70	55	6	2
Period 7/1/90 - 6/30/91:							
Average Monthly Benefit	$ 949	$1,093	$1,689	$2,085	$2,540	$2,944	$4,173
Number of Active Retirants	14	53	95	155	160	37	5
Period 7/1/91 - 6/30/92:							
Average Monthly Benefit	$ 819	$1,205	$1,941	$2,256	$2,290	$3,159	$3,930
Number of Active Retirants	4	27	25	17	38	8	1
Period 7/1/92 - 6/30/93:							
Average Monthly Benefit*	$ 408	$1,002	$1,015	$1,561	$2,258	$3,090	$3,043
Number of Active Retirants	7	17	23	9	62	37	10
Period 7/1/93 - 6/30/94:							
Average Monthly Benefit*	$ 1,161	$ 576	$1,151	$1,605	$2,354	$3,176	$3,685
Number of Active Retirants	7	11	35	24	107	72	24

*"Average Monthly Benefit" included post-retirement pension adjustments and cost-of-living increases.

Teachers' Retirement System
Retiree Average Age and Benefits

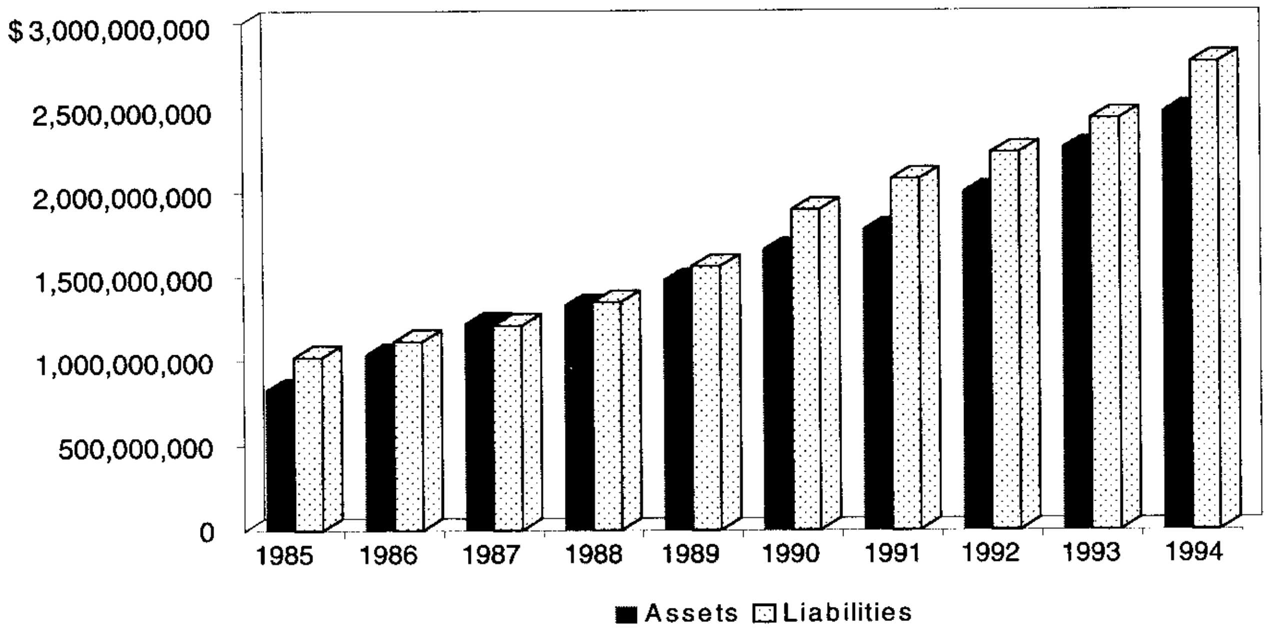
Year	# Retirees	Average Age	Average Monthly Benefit
1985	2,022	62.75	$ 1,534
1986	2,098	63.18	1,542
1987	2,376	62.83	1,659
1988	2,972	61.41	1,770
1989	3,098	61.85	1,812
1990	3,184	62.45	1,853
1991	3,544	61.64	1,930
1992	3,602	61.97	2,000
1993	3,891	62.47	1,976
1994	4,134	62.73	2,028

Teachers' Retirement System
Schedule of Benefit Expenses by Type
(000s omitted)

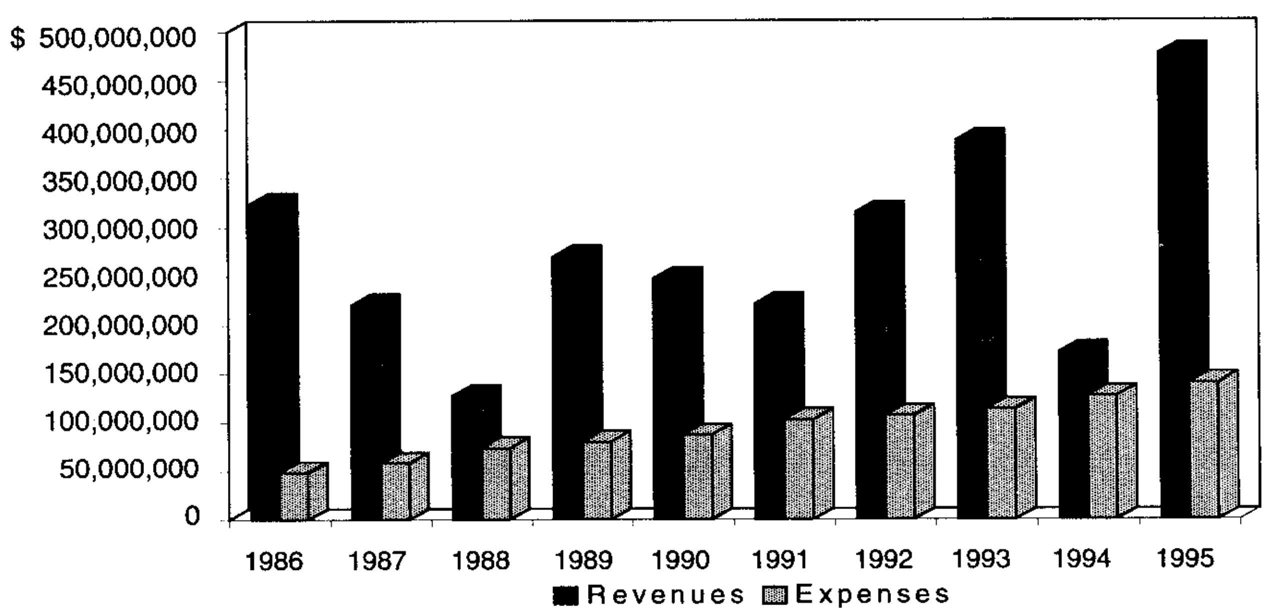
Fiscal Year	Service	Disability	Survivor	Lump Sum Death	COLA[1]	PRPA[2]	Medical	Total
1986	$27,581	1,342	985	62	1,942	6,564	4,424	42,900
1987	33,441	1,548	1,050	14	2,391	7,739	4,613	50,796
1988	46,818	1,976	1,077	-	3,477	7,591	5,040	65,979
1989	49,501	2,192	1,205	67	3,568	8,795	8,073	73,401
1990	53,297	2,347	1,322	206	3,820	10,142	9,713	80,847
1991	65,275	2,324	1,414	118	4,663	10,649	10,654	95,097
1992	67,502	2,451	1,444	224	4,584	12,443	10,111	98,759
1993	70,478	2,500	1,587	342	4,638	13,158	12,089	104,792
1994	76,735	2,579	1,773	487	4,991	14,202	15,725	116,492
1995	85,933	2,546	2,051	462	5,642	14,864	18,264	129,762

(1) Cost of Living in Alaska
(2) Post Retirement Pension Adjustment

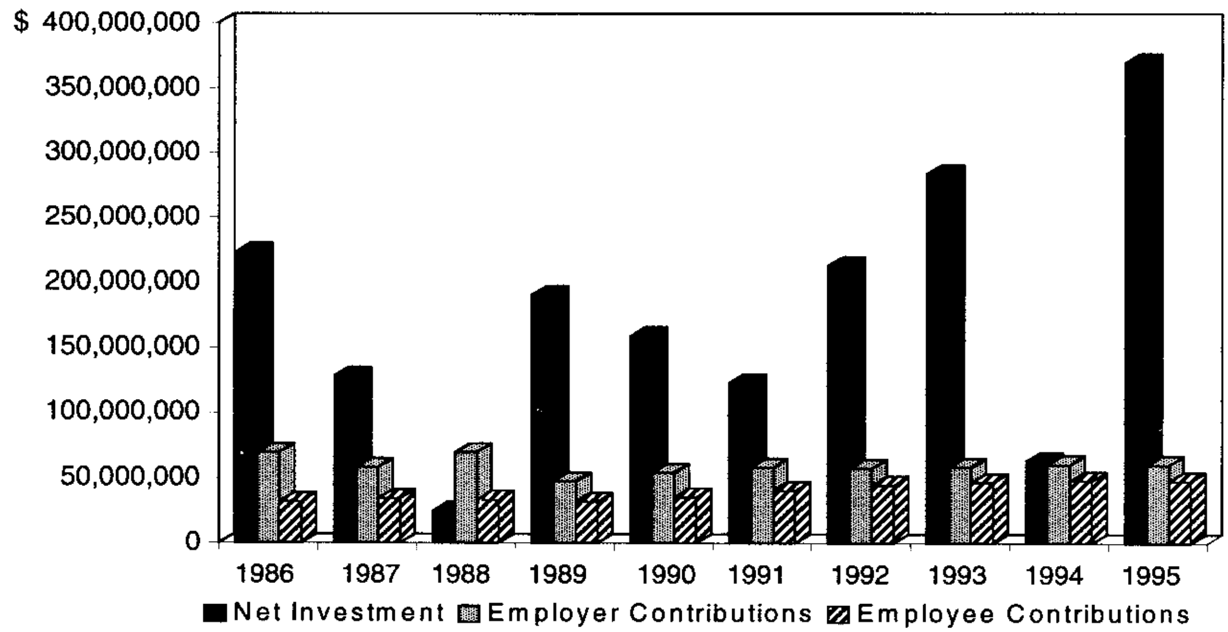
TEACHERS' RETIREMENT SYSTEM
10-YEAR COMPARISON OF VALUATION ASSETS AND ACCRUED LIABILITIES



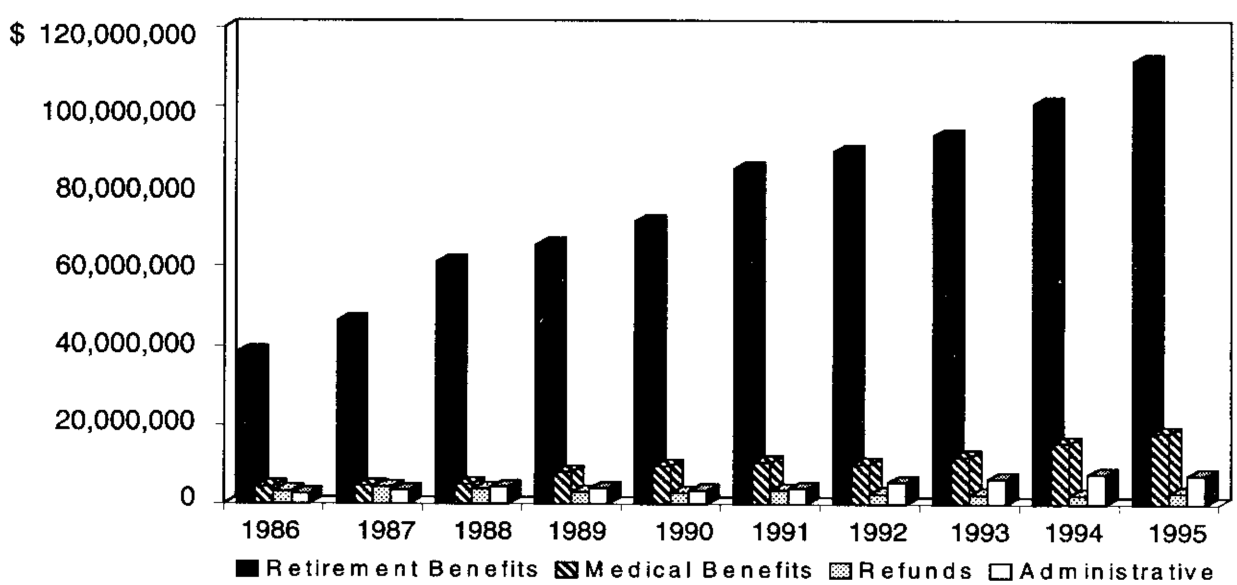
TEACHERS' RETIREMENT SYSTEM
10-YEAR COMPARISON OF REVENUES AND EXPENSES



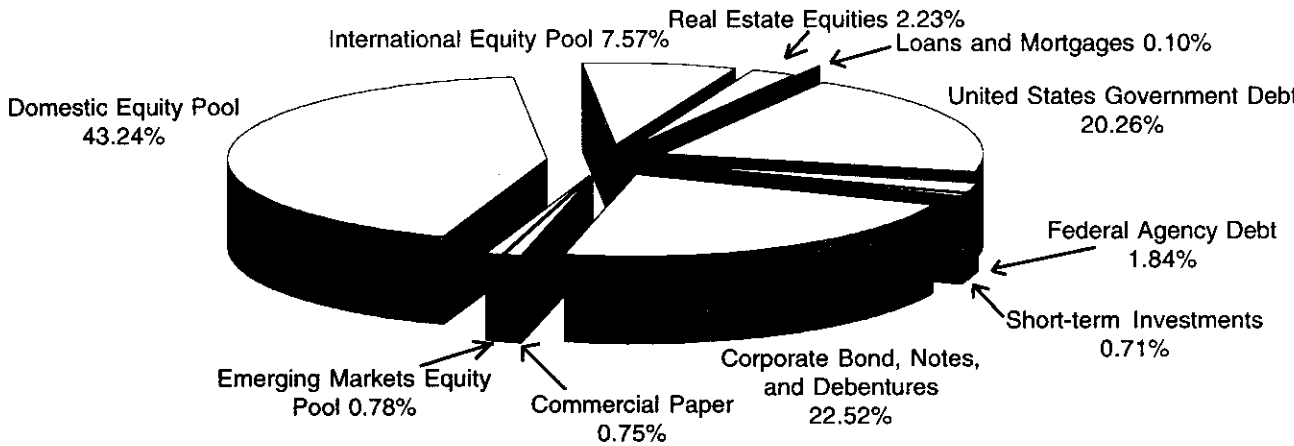
TEACHERS' RETIREMENT SYSTEM
10-YEAR BREAKDOWN OF REVENUES BY SOURCE



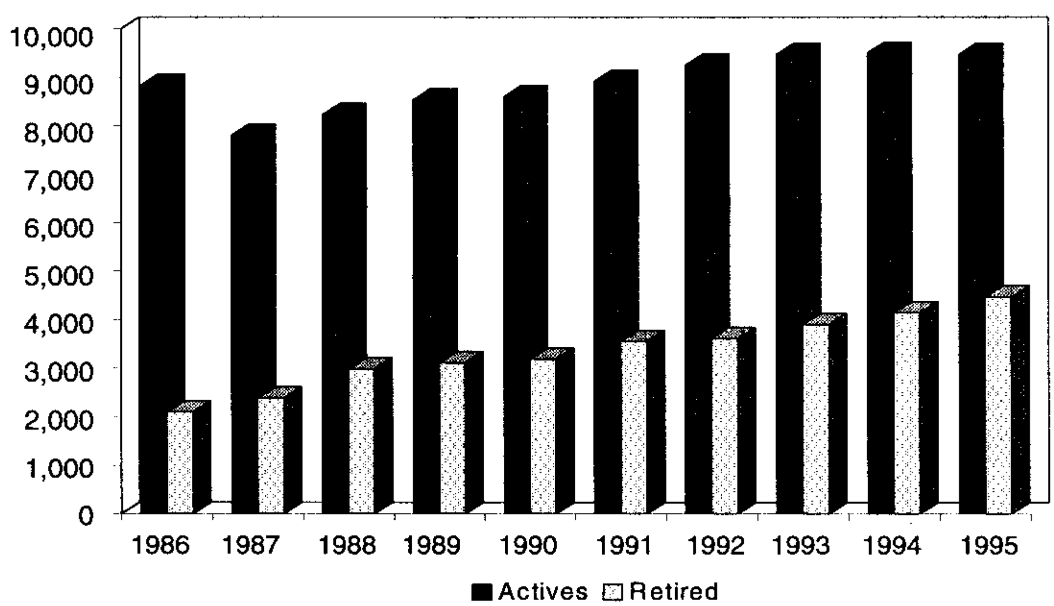
TEACHERS' RETIREMENT SYSTEM
10-YEAR BREAKDOWN OF EXPENSES BY TYPE



TEACHERS' RETIREMENT SYSTEM
INVESTMENT PORTFOLIO
Year Ended June 30, 1995



TEACHERS' RETIREMENT SYSTEM
10-YEAR COMPARISON OF ACTIVES AND RETIREES



TRS PARTICIPATING EMPLOYERS AND CONTRIBUTION RATES
FISCAL YEAR 1995

Employer	Contribution Percentage
Adak Region School District	12.00%
Alaska Department of Education	
Alaska Gateway School District	
Alaska, University of	
Alaska Geophysical Institute, University of	
Alaska State Legislature	SAME FOR ALL EMPLOYERS
Aleutian Region School District	
Aleutians East Borough School District	
Anchorage School District	
Annette Island School District	
Bering Strait School District	
Bristol Bay Borough School District	
Chatham School District	
Chugach School District	
Copper River School District	
Cordova Public Schools	
Craig City School District	
Delta-Greely School District	
Denali Borough School District	
Dillingham City School District	
Fairbanks North Star Borough School District	
Galena City School District	
Haines Borough School District	
Hoonah City School District	
Hydaburg School District	
Iditarod Area School District	
Juneau School District, City and Borough of	
Kake City School District	
Kashunamuit School District	
Kenai Peninsula Borough School District	
Ketchikan Gateway Borough School District	
Klawock City School District	
Kodiak Island Borough School District	
Kuspuk School District	

TRS PARTICIPATING EMPLOYERS AND CONTRIBUTION RATES
FISCAL YEAR 1995

Employer (continued)	Contribution Percentage
Lake and Peninsula School District	12.00%
Lower Kuskokwim School District	
Lower Yukon School District	
Matanuska-Susitna Borough School District	
National Education Association - Alaska	S
Nenana Public Schools	A
Nome Public School	M
North Slope Borough School District	E
Northwest Arctic Borough School District	
Pelican School District	F O
Petersburg Public Schools	R
Pribilof School District	
Saint Mary's School District	A L
Sitka School District	L
Skagway City School District	
Southeast Island School District	E
Southeast Regional Resource Center	M
Southwest Region Schools	P
Special Education Service Agency	L
Tanana City School District	O Y
Unalaska School District	E R S
Valdez City Schools	
Wrangell Public Schools	
Yakutat City School District	
Yukon Flats School District	
Yukon-Koyukuk School District	
Yupiit School District	

PLAN SUMMARY

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM

Plan Summary

On July 1, 1955, the Alaska State Legislature established the Teachers' Retirement System (TRS). Chapter 97, 1990 Session Laws of Alaska, created a two-tier retirement system. Members who were first hired under the TRS before July 1, 1990, are eligible for different benefits than members hired after June 30, 1990. The Commissioner of the Department of Administration is responsible for administering the System. The Teachers' Retirement Board prescribes policies and regulations and performs other activities necessary to carry out the provisions of the System. The Alaska State Pension Investment Board is responsible for managing and investing TRS funds. The Attorney General represents the system in legal proceedings.

Employers

There are 61 employers participating in TRS.

Members

TRS membership is mandatory for:

a. Full-time and part-time teachers, school nurses, and other employees in positions requiring teaching certificates;

b. The Commissioner and certificated supervisors employed by the Alaska Department of Education in permanent positions requiring teaching certificates;

c. University of Alaska full-time and part-time teachers, and full-time administrative employees in positions requiring academic standing (employees participating in the University of Alaska's Optional Retirement Plan are not covered by the TRS); and

d. Members on approved sabbatical leave under AS 14.20.310.

Credited Service

Members receive one year of credit if they work at least 172 days during a school year. Members working less than 172 days receive fractional credit based on the number of days worked. Part-time members receive half-time credit for each day worked.

Members may claim other types of service, including outside teaching, military, Alaska Bureau of Indian Affairs, Alaska Territory, elected official, leave of absence without pay, unused sick leave, and service that was not creditable at the time it was performed.

Members receiving TRS disability benefits continue to earn TRS credit while disabled.

Employer Contributions

TRS employers contribute the amount required, in addition to members' contributions, to fund TRS benefits.

Member Contributions

Members are required to contribute 8.65% of their base salary. Members' contributions are deducted from gross wages before federal income taxes are withheld. Members hired before July 1, 1982, who

(Continued)

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM

Plan Summary

participate in the supplemental contributions provision are required to contribute an additional 1% of their base salary (see *Death Benefit* below). Member contributions are required for most types of claimed service. Members' contributions earn 4.5% interest, compounded annually on June 30.

Terminated members may receive refunds of their member contribution accounts, which includes their mandatory contributions, indebtedness payments, and interest earned. Terminated members' accounts may be attached to satisfy claims under Alaska Statute 09.38.065, federal income tax levies and valid qualified domestic relations orders.

Refunded accounts and the corresponding TRS service may be reinstated upon reemployment in the TRS. Accounts attached to satisfy claims under Alaska Statute 09.38.065 or a federal tax levy may be reinstated at any time. Interest accrues on refunds until they are paid in full or the member retires.

Retirement Benefit

The normal benefit is calculated by multiplying the member's average base salary (ABS) times total TRS service times the appropriate percentage multiplier. The ABS is determined by averaging the three highest, annual base salaries. The TRS pays a minimum benefit of $25.00 per month for each year of service when the calculated benefit is less.

The percentage multipliers are 2% for the first 20 years of service and 2.5% for all remaining service, except that service before July 1, 1990 is calculated at 2%.

Members are eligible for normal retirement at age 60 and early retirement at age 55 (if first hired before July 1, 1990, normal retirement is age 55 and early retirement is age 50). To retire members must have:

a. Eight years of membership service;

b. 15 years of TRS service, if the last five years are membership service and the member was first hired before July 1, 1975;

c. Five years of membership service and three years of Alaska Bureau of Indian Affairs (BIA) service;

d. 12 school years in each of which the member earned either part-time or full-time membership service; or

e. Two years of membership service if the member is vested in the Public Employees' Retirement System.

Members may also retire at any age with:

a. 25 years of service if the last five years are membership service;

b. 20 years of membership service;

c. 20 years of combined membership and Alaska BIA service if the last five years are membership service; or

d. 20 years of combined part-time and full-time membership service.

Members may choose between the normal, early, and joint and survivor (50%, 66-2/3% or 75%) options. Actuarial reductions to benefits are required under all options, except for normal retirement.

(Continued)

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM

Plan Summary

Retirement benefits will be actuarially reduced when there is an indebtedness remaining at retirement. However, TRS service used to satisfy the minimum service requirements for retirement must be paid in full.

Reemployment of Retired Member

Retirement benefits are suspended while retired members are reemployed under the TRS. During reemployment, members earn additional TRS service and contributions are withheld from their wages.

Members who retire under the Retirement Incentive Programs (RIPs) who return to employment under the TRS, Public Employees' Retirement System (PERS), or the University of Alaska's Optional Retirement Plan will:

a. Forfeit the three years of incentive credits that they received.

b. Owe the TRS 110% of the benefits that they received under the RIP, including any costs for health insurance, and excluding amounts that they paid to participate.

c. Be charged 7% interest on amounts owed from the date of reemployment until the indebtedness is paid in full or they retire again. Any balance remaining at retirement will result in an actuarial reduction to the member's future benefits.

Disability Benefit

TRS disability benefits are paid until the member dies, recovers or becomes eligible for normal retirement. Disabled members continue to earn TRS service until their normal retirement date. When eligible for normal retirement, disability benefits terminate and the member is appointed to normal retirement.

Monthly benefits are equal to 50% of the member's base salary on the date of disability. An additional 10% is paid for each dependent child up to a maximum of 40%.

Death Benefit

When a member dies, benefits are payable under the occupational or nonoccupational death provisions, unless a survivor's allowance or spouse's pension is payable under the supplemental contributions provision.

Occupational Death. When an active member dies from occupational causes, a monthly survivor's pension may be paid to the spouse. The pension equals 40% of the member's gross monthly compensation on the date of death or disability, if earlier. If there is no spouse, the pension is paid to the member's dependent children. On the member's normal retirement date, the benefit converts to a normal retirement benefit based on the member's average salary on the date of death or disability and service including service that accrues from the date of the member's death or disability to the normal retirement date.

Nonoccupational Death. When an active, vested member dies from nonoccupational causes, the surviving spouse may elect to receive a monthly 50% joint and survivor benefit or a lump sum payment. The monthly benefit is calculated on the member's average salary and TRS service at the time of death.

Upon the death of a member who has less than one year of service, the designated beneficiary receives the member's contribution account, which

(Continued)

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM

Plan Summary

includes mandatory contributions, indebtedness payments, and interest earned. The beneficiary also receives $1,000, plus $100 for each year of membership service (not to exceed $3,000), if the member has more than one year of TRS service, but less than eight years. An additional $500 may be payable if the member is survived by dependent children.

Death After Retirement. When a retired member dies, the designated beneficiary receives the member's contribution account, less any benefits already paid. If the member selected a survivor option at retirement, the eligible spouse receives a continuing lifetime monthly benefit. If benefits are payable under the supplemental contributions provision, the eligible spouse or dependent children will receive a spouse's pension or survivor's allowance.

Supplemental Contributions Provisions. A survivor's allowance or spouse's pension is payable when a member dies while (a) in active service or disabled after making supplemental contributions for at least one year, or (b) retired or deferred vested after making supplemental contributions for at least five years.

If a member has dependent children, a survivor's allowance equal to 35% of the member's base salary at the time of death or disability will be paid the spouse. An additional 10% is paid for each dependent child up to a maximum of 40%. The survivor's allowance ceases and a spouse's pension becomes payable when there is no longer an eligible dependent child.

A spouse's pension will be paid to the spouse if there are no dependent children. The pension equals 50% of the retirement benefit that the member was receiving or would have received if retired at the time of death. The pension ceases when the spouse dies.

Post Retirement Pension Adjustment

Post retirement pension adjustments (PRPAs) are granted annually to eligible benefit recipients when the Consumer Price Index (CPI) increases during the preceding calendar year. PRPAs are calculated by multiplying the recipient's base benefit, including past PRPAs, times:

a. 75% of the CPI increase in the preceding calendar year or 9%, whichever is less, if the recipient is at least age 65 or on TRS disability, or

b. 50% of the CPI increase in the preceding calendar year or 6%, whichever is less, if the recipient is at least age 60, or under age 60 if the recipient has been receiving benefits for at least eight years.

Alaska Cost of Living Allowance

Eligible benefit recipients who reside in Alaska receive the Alaska Cost of Living Allowance (COLA), which is equal to 10% of their base benefits. The following benefit recipients are eligible:

a. Members who were first hired under the TRS before July 1, 1990, and their survivors;

b. Members who were first hired under the TRS after June 30, 1990, and their survivors if they are at least age 65; and

c. All disabled members.